The Economist

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Why it is time to scuttle the shuttle

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Politics this week

Aug 28th 2003
From The Economist print edition

Time for a rethink, maybe

George Bush, pledging “no retreat” in **Iraq**, claimed that America was making good progress in restoring order to the country. But the State Department signalled, for the first time, that America might consider a multinational force under the UN provided it was led by an American.

See article: America, the UN and Iraq

Meanwhile, bloody incidents continued in **Iraq**, including an assassination attempt on a leading Shia cleric. Relief agencies cut back their operations. The UN Security Council voted to increase protection for aid workers in conflict zones. Paul Bremer, the American administrator, said Iraq would need aid of “several tens of billions” in the coming year.

AFP

See article: The bid to kill an Iraqi ayatollah

The United States, fulfilling a promise made in the wake of invading Iraq, closed its operations at Prince Sultan airbase in **Saudi Arabia**.

In a further sign of his unwillingness to surrender control to the Palestinian prime minister, Mahmoud Abbas, **Yasser Arafat** appointed General Jibril Rajoub as national security adviser in open rivalry to Muhammad Dahlan, the security minister. But he also called on militant groups to return to the ceasefire they renounced last week.

A leaked report on **Iran** from the International Atomic Energy Agency says inspectors found traces of highly enriched uranium in samples taken from the Natanz nuclear facility. Iran claims that the samples were contaminated by imported equipment.

See article: What nuclear inspectors have found in Iran so far

The British arrested Hadi Soleimanpour, a former Iranian ambassador to **Argentina** who is studying for a doctorate at Durham University, for possible extradition to Argentina in connection with a bombing in 1994. Another wanted Iranian was briefly arrested in Belgium. In a separate case, two Iranian interrogators are being charged over the death of a Canadian journalist, Zahra Kazemi, in custody in Tehran.

See article: The explosive arrest of Iran's former envoy to Argentina

Rwanda's president, **Paul Kagame**, won 95% of the vote in a presidential election. Though there is convincing evidence that voters were intimidated, Mr Kagame has earned support across the country's bitter ethnic divide.

See article: Rwanda's presidential election

South Africa's anti-graft unit, the Scorpions, said it had a prima facie case of corruption against the deputy president, **Jacob Zuma**, but had decided not to prosecute him. Opposition parties demanded that he resign, but President Thabo Mbeki stood by him.

The 14 countries of the **Southern African Development Community** signed a mutual defence pact. This allows for diplomatic or military intervention in a member country to stop internal conflict.

On the spot

Britain's prime minister, **Tony Blair**, gave evidence to the Hutton inquiry into the suicide of David Kelly, a Ministry of Defence scientist who had claimed that the government's dossier of Iraq's weapons of mass destruction had been “sexed up”. Mr Blair said he contested the allegation because it was so serious. If it were true, he would have had to resign, he said.

See article: Tony Blair in the dock

Germany's government published a long-awaited public-pensions plan by a commission headed by an economist, Bert Rürup, who said that Germans should retire at 67 rather than today's 65 and that they should expect pensions worth 40% of gross average earnings rather than today's 48%.

See article: Germany's effort to impose reform while keeping a consensus

Italy's prime minister, Silvio Berlusconi, said his government might raise the retirement age; many Italians in the public sector can get a pension at 57.

See article: A controversial plea for pensions reform in Italy

The governor of **Russia's** oil-rich Pacific-coast island of Sakhalin, died with 19 others in a helicopter crash on the Kamchatka peninsula.

Three bombs killed three people in the southern Russian city of Krasnodar, and a car bomb killed Mahomedsalikh Gusayev, a minister in the Russian republic of **Dagestan**, next to Chechnya. Terrorists are presumed to have made both attacks.

Trading partners

Peru agreed to become an associate member of **Mercosur**, South America's main trade block headed by Brazil and Argentina; Chile and Bolivia are already associates, having signed a free-trade agreement with the group without joining its customs union.

See article: Peru joins Mercosur

Venezuela's supreme court appointed a provisional electoral authority, whose first job will be to organise a referendum on the rule of President Hugo Chávez.

Canada's prime minister, Jean Chrétien, signed an agreement granting self-government to the Tlicho, an Indian people. Under the agreement, the Tlicho will get a share in the royalties of three diamond mines in the Northwest Territories.

See article: A Canadian first nation wins a land claim

Blasts in Mumbai

AFP

More than 50 people were killed, and over 150 injured, by two bombs in **Mumbai** (formerly Bombay).Initial suspicion fell on a domestic group, with links to a Pakistan-based terrorist organisation.

See article: The usual suspects

Talks between America, North Korea, South Korea, Japan, China and Russia started in Beijing, aimed at ending the crisis triggered by last year's discovery of **North Korea's** illicit nuclear programme.

See article: North Korean talks

Indonesia postponed plans to divide Papua province into three, following violent clashes which left four dead. The province was until recently called Irian Jaya, a name resented by Papuans.

The chief minister of Uttar Pradesh, **India's** largest state, resigned.

See article: Indian elections

Moving words

AFP

A two-ton block of granite depicting the **Ten Commandments** was removed from the state courthouse in Alabama. Roy Moore, the state's chief justice, was suspended for defying decrees by a federal court and fellow judges that the installation broke constitutional rules on the separation of church and state.

See article: Church and state in Alabama

The General Accounting Office, Congress's investigative unit, published its findings into the Bush administration's **energy policy**. The report criticised Vice-President Dick Cheney for hampering the inquiry by his refusal to hand over key documents relating to corporate influence on the 2001 “energy task force”.

The Department of Justice reported that 23m **serious crimes** were committed in America in 2002, the lowest level since 1973. However, preliminary figures indicated that 16,110 people had been murdered, a slight rise over 2001.

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Business this week

Aug 28th 2003
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Overhauling MCI

MCI agreed to a plan for a widespread overhaul of its corporate governance suggested by Richard Breeden, who was appointed by the bankruptcy court to prevent a repeat of the “nearly imperial reign” of Bernie Ebbers, the firm's former boss under its former name, WorldCom. Meanwhile, Oklahoma's attorney-general filed criminal charges against the telephone giant, Mr Ebbers and other managers for giving false information to investors.

See article: Ebbers' tangled legacy

Vivendi Universal's auction of its American entertainment businesses is down to its last two bidders. After the withdrawal of Liberty Media, only a group of investors led by Edgar Bronfman and General Electric's NBC remain in the running. The price is likely to fall short of the $14 billion Vivendi wants.

Deutsche Telekom bid *euro*1 billion ($1.1 billion) for the 51% of Polska Telefonia Cyfrowa that it does not already own. The German telecoms behemoth has long coveted full ownership of Poland's biggest mobile-phone operator.

The credit rating of **Munich Re**, the world's largest reinsurance company, was cut by Standard & Poor's, after it reported a fifth quarterly loss in a row, of *euro*365m ($396m). The company said the cut was “unjustified”.

Intel counselled caution despite revealing that it expected healthy growth of chip sales in the third quarter. The world's biggest chipmaker said that it was unsure if this signalled an end to a three-year slump in chip sales.

Fair exchange?

The **New York Stock Exchange** said that Richard Grasso, its chief executive, would receive $139.5m in deferred retirement benefits. The sum exceeds the exchange's combined net income for the past three years.

DaimlerChrysler paid $300m to shareholders to settle a class-action lawsuit alleging that Chrysler presented its takeover by Daimler in 1998 as a merger. Shareholders say they should have got more cash for giving up control of the firm; the car giant was unwilling to test the contention in court. Kirk Kerkorian, who owned 14% of Chrysler, is bringing a similar case. He wants $8 billion in damages.

Siebel Systems agreed to settle a lawsuit claiming that it had broken its own rules over the granting of stock options. The Californian software firm was accused by a big shareholder of understating grants of options to the company's boss, Tom Siebel, glossing over other grants and failing to account properly for options.

Amazon struck a small blow against spam. The internet retailer is suing 11 companies that used its name to disguise their own e-mails in the hope of gulling customers into buying a range of services that Amazon does not offer, such as penis enlargement.

Bon voyage, Ryanair?

Air France, which made just *euro*4m ($4.5m) in the latest quarter, took on the competition. **Ryanair** was forced to suspend flights to Strasbourg while a French court investigates claims made by Air France that the hugely successful Irish low-cost carrier had received an illegal subsidy from the airport's owners.

Bombardier, a Canadian maker of regional jets, announced that it would sell its boat and snowmobile division to a consortium headed by Bain Capital, an investment firm, and including members of the Bombardier family, for C$1.2 billion ($870m).

Any takers?

South Korea's government took tentative steps towards off-loading its 35% stake in **Daewoo Heavy Industries** for some $1 billion. DHI emerged from the wreckage of Daewoo Group, which went bankrupt in 1999. The government, which made the break-up and sell-off of the *chaebol* a condition of its rescue, is considering the best way to make the sale.

South Korea attracted a large slice of foreign investment after **Lone Star** agreed to pay 1.4 trillion won ($1.2 billion) for control of **Korea Exchange Bank**. The American private-equity group probably hopes that the country's financial reforms will free the country's banks to make healthy returns in the future.

A draft agreement on measures to provide low-cost medicines to poor countries was reached at the **World Trade Organisation**. Patents for some drugs will be relaxed.

Confidence returns

Americans appeared surprisingly bullish about the state of their economy, according to the latest **consumer-confidence** figures from the Conference Board. Germany's businessmen also displayed confidence even though the country is in recession. The Ifo index of business sentiment showed that most expected the economy to expand in the second half.

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The space shuttle

Old, unsafe and costly

Aug 28th 2003
From The Economist print edition

It is time to admit that the shuttle has failed, and move on

Get article background

ONE day, it will seem remarkable that America's space shuttle remained in operation for so long. The fact that it did so owes something to its emotional appeal. After all, millions of people around the world watched *Columbia*'s perfect landing at Edwards Air Force Base in California, live on television. Yet, since that sunny day back in 1981, the shuttle has never adequately done what it was meant to do. It has always been a bad design: expensive, inherently risky and—as two fatal accidents have demonstrated—unsafe. It cannot launch satellites at a sensible price, and it lifts people into orbit only because of America's very deep pockets. America and its taxpayers need a better way to continue the development of space transport.

This is not to disparage the bravery of *Columbia*'s crew, nor the talents of NASA's engineers. And, in spite of *Columbia*'s destruction, the shuttle will undoubtedly fly on for a few more years. The board investigating the accident does not say how much it will cost to fix the shuttle's problems (see article). Congress has not even begun saying how much it is willing to spend. But after some changes, such as the development of a way of inspecting the craft when it is in orbit, the shuttle will lift off again. Indeed, it must, in order to service the international space station that is currently under construction.

However, by 2010 the board says the entire craft must be recertified from the bolts upward. There are many reasons to think that a badly designed vehicle from the 1970s will not pass this inspection, or will be too expensive to fix. More pertinently, the laws of probability suggest that another accident is likely before the space station is finally retired. No wonder everyone from famous astronauts such as Buzz Aldrin, to space enthusiasts and scientists favour its replacement. The board report says that the shuttle should be phased out “as soon as possible” as the main way of transporting people into orbit around Earth.

Who needs it?

But replaced with what? Despite many attempts, and many billions spent, NASA has failed to come up with a convincing alternative. And later this year, while the shuttle is still firmly grounded, China may launch astronauts for the first time. A situation could arise where China, Russia and an entrepreneur called Burt Rutan, based in a shed in the Mojave desert, constitute the world's entire potential for launching astronauts.

The shuttle's only real destination is the space station. The station is an international project to which many countries are financially committed. But, as *The Economist* has long argued, it is a waste of money. Most of the science it is supposed to do could be done more cheaply, and more efficiently, on unmanned rockets. Astronauts are not needed to push buttons. And going round and round in orbit—as the station does—does not explore any frontier. Indeed, because the station (and the shuttle) suck up most of NASA's budget, the agency has little cash to undertake science and exploration that would be truly path-breaking. The shuttle and the space station thus hold back scientific inquiry, rather than advancing it.

Yet if America and the station's international partners insist that the space station is to be completed,

only the shuttle can haul its large bits into space. Even so, it could fly unmanned part of the time (the shuttle doesn't actually need pilots) and astronauts could reach the station using Russian craft. The American government could save billions by using *Soyuz* in that way. And *Soyuz* is safer.

Retiring gracefully

However, another way of viewing the accident is as an opportunity. Getting people on and off the space station is not, actually, rocket science any more. It should be a routine job, and its replacement, as NASA concedes, could easily be built using cheap off-the-shelf technology. So this is the ideal moment to extract NASA completely from the business of routine space transport. NASA should have no involvement in building a replacement vehicle to visit the station: the agency has no incentive to solve the problem with a simple solution.

Instead, NASA should concentrate on developing high-risk technologies with the potential to transform routine space travel for people and equipment: in other words, do the research and development that private companies will not do on their own. It could also specialise in long-term exploration and opening the Martian frontier.

For, while NASA has been throwing money at the shuttle, a new generation of entrepreneurs and companies has been trying to enter the space business. Some, such as Mr Rutan, are competing to build the first privately financed craft to take people into space—for an award of $10m. In five years' time, private enterprise may well be putting more people into space than governments can. There is a great deal of demand for short, tourist rides into space.

Indeed, if private enterprise can create astronauts with only millions of dollars, what might it achieve with a fraction of NASA's wasted billions? The space station is a mere 380km (240 miles) above the Earth. That is about four times further than any of today's private suborbital craft are trying to reach. But, if NASA were a customer, and not a competitor, in the business of building spacecraft, companies might have the incentive to extend their craft all the way into orbit.

So far, billions of dollars of taxpayers' cash has allowed only around 400 people to travel into space. Many more would probably go if it were affordable. NASA will not achieve that. Indeed, in order to keep attracting large sums of money, NASA has invented ever more exotic, and pointless, high-technology vehicles. Meanwhile, the existence of the shuttle doubtless inhibits the development of a private space industry and the new private companies face regulatory restrictions that do not apply to the shuttle. Remove some of these barriers, scuttle the shuttle, and a private industry may bloom. Then, some of those who once watched *Columbia*'s perfect landing might experience the thrill of going into space for themselves. And NASA could explore the real frontiers.

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Britain's Hutton inquiry

In the dock

Aug 28th 2003
From The Economist print edition

Britain's prime minister has his work cut out if he is to restore his reputation and political strength

Murdo Macleod

Get article background

NO ONE should underestimate how extraordinary is the judicial inquiry going on into the death of David Kelly. The apparent suicide of one of the country's top experts on Iraq's weaponry, shortly after being revealed in July as the source for a BBC radio report alleging the government had knowingly misled the public over those weapons, has brought about the greatest spate of official openness that Britain has ever seen. Documents and e-mails have been released that would normally have been held secret for 30 years or more; civil servants, senior ministers and even spies have been questioned in public; and to top it all the prime minister himself took the witness stand on August 28th (see article).

All that openness, in an inquiry conducted at remarkable speed, is greatly to the credit of Lord Hutton, the presiding judge, who has demanded it as well as organising it. Such openness should also bring credit to Tony Blair, for letting it happen so readily and rapidly—many governments would have spent weeks arguing about procedures and parameters. It may be no coincidence that the inquiry so far has shown the government in a pretty good light: you can afford to be open if you are confident that you have nothing to hide. That does not, however, mean that once the inquiry is over Mr Blair will be able to resume his previous position as Britain's impregnable prime minister. He has been damaged by the war in Iraq and by the Kelly affair. It will take a huge effort if he is to recover.

The perils of leadership

Almost all the evidence given to the inquiry, though not yet subjected to cross-examination, has painted a consistent picture. First, that the dossier about Iraq's weaponry, published in September 2002 as part of the argument for (at that stage) threatening Saddam Hussein with war, was assembled carefully, under the control of John Scarlett, a senior spy who headed the inter-departmental Joint Intelligence Committee, and that many voices counselled that its tone should be sober and its words moderate. Second, that David Kelly would have been wrong to tell BBC reporters that a specific claim, that some of Iraq's illegal weapons could be deployed within 45 minutes, had been inserted against the objections of the spies, to “sex up” the dossier. Whether the claim was right or wrong, it seems to have been believed at the time, to have come from an Iraqi source who was believed to be reliable, and was inserted by intelligence officials, not spin doctors. Third, that Mr Blair and his head of communications, Alastair Campbell, reacted angrily and rather obsessively to the BBC's allegations. The fourth point, however, helps to explain such behaviour. It is that the firmest language in the dossier was put under the name of Mr Blair himself—namely, that the threat posed by Iraq was “serious and current”, contrary to his own chief of staff's advice against describing the threat as “imminent”.

Mr Blair, in other words, went out on a limb, by comparison even with his close aides. At the inquiry, he dealt with questioning about this like the good lawyer that he was before he entered politics. Lord Hutton's report, when it finally appears, looks unlikely to criticise him for that wording, as it will surely not be thought germane to the circumstances of Mr Kelly's death. It does, though, epitomise the prime minister's political position. The man who made Labour electable by dragging it into the central ground of

British politics has now put himself out on a limb.

He has done so with a mixture of high moral purpose and low political technique. His decision to threaten and then go to war was firmly in the first category. As *The Economist* also favoured those decisions, we naturally applaud the stance he took. Critics who deride him as slavishly doing whatever President George Bush wanted are being grossly unfair. Mr Blair was already on record as having worried aloud about Iraq's weapons programmes as soon as he came into government in 1997, and to have expressed willingness to go to war to deal with them. If anything, Mr Blair's model may have been the tale of Margaret Thatcher stiffening the spine of Mr Bush's father before the first Gulf war in 1991. In an era when few politicians show a willingness to go ahead of public opinion rather than tracking the focus groups, he chose to lead. He had not done so, by and large, in domestic affairs while in government, but he did, at last, in foreign policy.

What he now needs to do, however, is to prove that he was right. Much of the country, and most of his party, think he was wrong. Some of that case will no doubt be made in a passionate speech at the Labour Party conference in October. It will be made easier if David Kay, Mr Bush's current weapons sleuth, produces a report soon showing credible evidence of Saddam's weapons and programmes—though the risk is that such a report could, like Britain's 2002 dossier, convince only those who are already prepared to be convinced. His main effort, though, needs to be in the Middle East itself, and in Washington: having been Mr Bush's chief ally during the war, Mr Blair must now show that he can also be a decisive influence during the peace, both in shifting the pace and direction of reconstruction efforts in Iraq and in preventing the Israeli-Palestinian “road map” from disintegrating. Having shown leadership before, he cannot afford now to be a follower.

Mr Blair's low political techniques will, however, hamper this effort. Throughout his time as prime minister, he has shown himself to be obsessed with image and message and manipulation—what everyone now calls spin. With Mr Campbell as his main agent, he presided over a system that may not have invented spin but took it well beyond the previous practice. Mostly, it has been used to exaggerate minor achievements in domestic policy. On Iraq, it was used as part of the salesmanship for what was a genuinely bold policy. Over the BBC and Mr Kelly, it was used in an arguably disproportionate effort to prove a point and snuff out criticism. In all its uses, though, it is now seriously counter-productive. Mr Blair risks being disbelieved regardless of the facts, where in his early years he tended to be believed regardless. The spin must go, with Mr Campbell's departure as its symbol. If you spin when you are out on a limb, you are sure to fall off.

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Rwanda

Genocide's shadow

Aug 28th 2003
From The Economist print edition

Given Rwanda's past, this week's election went well. But its stability is brittle, and fear lingers

Get article background

AFP

NINE years ago, a Rwandan government dominated by Hutus tried to exterminate the country's Tutsi minority. As the western world looked away, some 800,000 people were murdered in 100 days: the swiftest genocide on record. The man who stopped the killing was Paul Kagame, who, at the head of an army of Tutsis who had fled previous massacres, toppled the government and took over the country. Since then, western donors, ashamed at their failure to do anything about the genocide, have lavished aid on Mr Kagame's government. They now provide more than half of its budget.

Much of the money has been well spent. Mr Kagame's regime has restored order in Rwanda, and tried hard to promote reconciliation between Hutus and Tutsis. It has imposed sensible macroeconomic policies, welcomed foreign investors and overseen a reconstruction that has all but restored incomes to where they were before the genocide. For a tiny landlocked country with no resources save its people, the best-educated of whom were bludgeoned to death in 1994, this is impressive.

To cap it all, this week Mr Kagame took a big step towards making Rwanda more democratic. On August 25th he was elected president for another seven years. (He was already president, but had not previously been directly elected.) It was Rwanda's first multiparty presidential poll, and it passed with minimal violence (see article). It was “a victory that brings hope,” said Mr Kagame, “a victory to show all those who think they know Rwanda that they don't.”

Well, maybe. Mr Kagame won 95% of the vote. Perhaps he really is one-and-a-half times as popular as Nelson Mandela was at the first post-apartheid election in South Africa. But it is hard to tell, because there is no freedom of expression in Rwanda. Nor of association: the only serious opposition party was banned before the poll, and its candidate harassed and threatened. Rwandan society remains almost as hierarchical as it was before the genocide. The ruling party's reach extends right down to the level of “cells”, the administrative units—typically comprising no more than a few dozen families—into which Rwanda is divided. Prominent people are relentlessly pressured to join the party, and most ordinary Rwandans are too scared to do anything other than what they are told.

The government has found that it can silence critics by mentioning the genocide. Its justification for invading Congo and at one point occupying a huge chunk of its territory was the need to crush the threat from *génocidaires* hiding in the Congolese rain forest. Fair enough; the threat was, and is, real. But in fighting it, did the Rwandans really have to kill tens of thousands of Congolese civilians and steal their minerals? Domestic critics, meanwhile, are accused of stirring ethnic hatred, and arrested. The regime has even tried to dismiss Amnesty International's complaints by accusing the human-rights group of relying on “those who still harbour the philosophy of *génocidaires*” for its information.

Donors are growing uneasy, as well they should. The Dutch reduced their funding for this week's election. Britain's new aid minister, Valerie Amos, has hinted that she may take a harder line than her predecessor did. It is not time to cut off support for Rwanda, but donors should try harder to encourage Mr Kagame's constructive, nation-building qualities, and to curb his authoritarian ones. His people's past suffering does not give him a licence to inflict suffering on others. History should colour one's view of the present, but not obscure it.

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India

Mumbai's bombs

Aug 28th 2003
From The Economist print edition

The terrorist attacks need not presage a wider breakdown between Hindus and Muslims

AFP

Get article background

WHENEVER a bomb goes off in India, or gunmen butcher civilians at a government building or a temple, there is, instinctively, a double fear. If the finger of suspicion points towards Pakistan, there will be strident calls for war, and anguished reporting of the dangers of a nuclear exchange. If instead the blame is placed at the door of Muslim—or, for that matter, Hindu—extremists, then the fears will be of reprisals and counter-reprisals, and a descent into communal madness of the sort that has killed Indians in their hundreds, even thousands, so many times before. The two bombs that killed 50 people and injured 150 more in Mumbai this week (see article) have revived both these fears, since evidence is said to link the home-grown Muslim terrorists who are already being blamed for the bombs with a group operating in, and with the support of, Pakistan. Is India headed into a downward spiral towards butchery, or war, or both?

If so, the Mumbai stockmarkets, India's largest, do not expect it, at any rate. On August 26th, the day after the attacks, the Mumbai stock exchange sharply rebounded, after losing 3% of its value on the day before. Though this could quickly change, there has so far been little inflammatory rhetoric, let alone retaliation, from groups such as Mumbai's notorious Hindu toughs, the Shiv Sena or “Army of Shivaji”. The Shiv Sena once dominated the politics of Bombay (as it then was), and in 1992 played a leading role in the religious violence that erupted in the city after the destruction of the mosque at Ayodhya, revered by Hindus as the supposed birthplace of the divine king Ram. But they are a far weaker force than in the past.

For their part, too, Delhi's politicians have mostly been restrained, neither blaming Pakistan nor saying anything Islamophobic. (An exception was the deputy prime minister and leading hardliner, L.K. Advani, who blamed Pakistan indirectly, and took the opportunity to demand that it hand over 19 alleged terrorists of Indian origin, who are connected to earlier incidents.) And the Pakistani government was extremely prompt in condemning the Mumbai attacks and expressing its sympathy for the victims. Since April, when India's prime minister made a speech offering “the hand of friendship” to Pakistan, the tenor of India-Pakistan relations has been steadily improving. The explosions in Mumbai need not interrupt, let alone reverse, this process. Confrontation, after all, is exactly what the sponsors of terrorism want.

Unconstrained by the threat of nuclear Armageddon, relations between India's own Muslims and the Hindu majority are not so easily kept on track. The BJP, the Hindu party that leads India's government, has been guilty of a long list of stupid and provocative actions. It ought long ago to have dismissed Narendra Modi, the chief minister of Gujarat, where perhaps as many as 2,000 people, mostly Muslims, died last year in riots that he did little to stop and is even alleged to have encouraged. Introducing a bill into parliament that would outlaw cow-slaughter nationally is needlessly provocative, as is the BJP's policy that a temple be built on the Ayodhya site. Both commitments reek of the worst kind of populism, and imminent general elections may prompt others.

There is, however, some reason to believe that the Indian people are wiser than the BJP. If, as it is to be hoped, there is no retaliation for Mumbai, that would fit an emerging pattern of Hindus refusing to blame Muslims at large for the sins of a small number of extremists. Of course, there is always the terrible counter-example of Gujarat. But even that bloodletting did not spread to the rest of the country (though the Mumbai bombs may be a twisted form of revenge for it). Even taking Gujarat into account, the last

decade has seen far less communal violence than the one before it. Tragedies like that in Mumbai this week need not become catastrophes.

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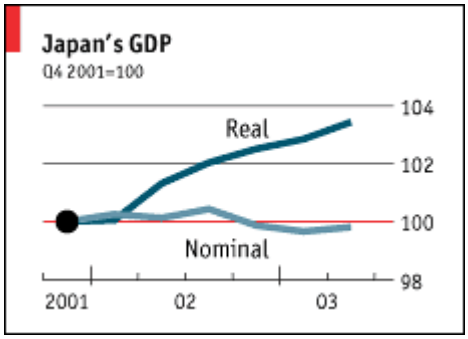
Japan's economy

On the rebound?

Aug 28th 2003
From The Economist print edition

It is too early to celebrate economic recovery in Japan

Get article background



JUST as many economists had predicted that Japan faced another decade of sluggish growth, its economy has suddenly burst into life. Japan's GDP growth of 2.1% in the past year is almost as brisk as America's and the Nikkei share-price measure has shot up by 34% since the end of April, three times the rise on Wall Street over the same period. Is Japan truly on the road to recovery?

Many economists (speedily changing tack) seem to think so. In early August the average GDP growth predicted for Japan by *The Economist*'s poll of forecasters was only 0.9% both this year and next. Our September poll, due next week, is likely to show a dramatic increase. Some forecasters now expect growth of more than 2% this year and 1.5-2% in 2004. Surveys also suggest that business confidence is perking up. After a decade with average growth of barely 1%, a recovery would be more than welcome. But there are three reasons to beware.

Japan's figures for real GDP growth need to be taken with a pinch of salt. Japan's nominal GDP was broadly flat in the second quarter; over the past year it has fallen. Nominal GDP is important because, in the medium term, it determines the rate of growth in profits and the ability of firms to service their debt. Can an economy really be said to be "expanding" when the money value of its output, the sum of all wages and profits, is still shrinking? The problem is that deflation continues apace. Indeed, one reason why Japan's real output has grown more strongly than expected this year is that prices as measured in the national accounts have fallen faster, turning a fall in nominal spending into a significant increase in real terms. Some components of the GDP deflator look highly suspect. For instance, the rate of deflation in capital goods has deepened, with prices falling by 6.9% in the year to the second quarter. As a result, real investment appears to surge even though firms are spending less money. Some economists worry that the rate of deflation used in the national accounts may be overstated. The good news is that deflation may not be as serious as official figures suggest. But the bad news is that Japan's real growth rate is therefore being overstated.

A second reason for caution is that Japan's financial system remains fragile. Banks are saddled with bad loans, and too many of the firms to which they lent are bust and should be allowed to fail. Meanwhile, deflation continues to swell the real burden of debt, and hence banks' bad loans. A genuine recovery will occur only once the banking system is cleaned up and deflation is defeated. Even if the recent rosier forecasts for growth come true, it will take several years to eliminate Japan's vast spare capacity and so end deflation. Prices will continue to fall until the output gap is gone.

How to end the recovery

Finally, remember that this is not the first spurt in growth during the decade since Japan's bubble burst in 1990. In 1996 and again in 2000 the economy revived strongly, only to be snuffed out by policy mistakes. In 1997 the government, eager to slim its budget deficit sharply, raised taxes—pushing the economy back into recession. In 2000 an over-hasty Bank of Japan, fretting that recovery would soon push up inflation, raised interest rates, again choking off demand. Policymakers must not now repeat those mistakes or invent new ones. Yet the government already plans significant fiscal tightening next year with a sharp increase in social-insurance contributions. Instead, the government and the Bank of

Japan will need to keep fiscal and monetary policy loose for some time if Japan is to rid itself of deflation and ensure a sustainable revival. Foot off the brake for now. Give growth a chance.

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Letters

Aug 28th 2003
From The Economist print edition

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Empire, state building?

SIR – You say that American military and nation-building intervention in other countries is likely to be short, because imperialism and democracy are at odds with each other ("Manifest destiny warmed up", August 16th). In the end democracy will win because the subjects will protest and so, eventually, will Americans. Your argument misses the economic face of empire.

Over the past three decades, America's government, particularly the Clinton administration, has constructed an international monetary and financial framework which ensures that the normal working of market forces shores up American power. The framework yields disproportionate benefits to Americans and confers autonomy on its economic policymakers while curbing the autonomy of all others. It provides the material basis of American military supremacy.

The key political feature of the system is that it is not an empire in the sense of an imperial centre and colonies. It is based on "sovereign" states. These states can be left to manage the costs of the system, including the protests of those whose lives are disrupted by it. This is how the modern-day empire can quietly escape the trade-off between imperialism and democracy, most of the time.

Robert Hunter Wade
London School of Economics
London

SIR – America most certainly is not an empire. Though it inherited the geopolitical mantle of ensuring world stability from previous imperial powers, it lacks two essential traits of past empires. First, empires used conquest to plunder the resources of the periphery to enrich the centre. No empire has ever engaged in the likes of the Marshall Plan to benefit the vanquished as America has. The United States will spend billions to stabilise Afghanistan and Iraq rather than benefiting materially from them. Second, America does not send out colonialists to people the upper stratum of the populations of the societies it defeats militarily nor do we shuffle various population groups to ensure control.

We may seem like a duck and we may even quack like a duck. But we most certainly do not walk like a duck, thumping over others with heavy feet (or jackboots). Despite our enormous power, we walk rather softly—and benevolently.

James Na
Seattle

Tackling fishing

SIR – You talk of the potential for aquaculture to increase fish production but ignore the possibility of increasing fish production by restoring natural ocean fisheries and managing sustainable levels of harvest ("A new way to feed the world", August 9th). The "tragedy of the commons" must be replaced by the "triumph of the commons" if we are to devise a liveable world for future generations.

Eric James Heil
Rico, Colorado

SIR – Terrestrial agriculture pollutes the land and streams, wreaks havoc with the environment and loses the topsoil. Attempts to stem this devastation have not gone very far. So it must be just hunky-dory to extend the damage to what is left of our wetlands.

Roger Becker
Dayton, Ohio

Hostile environment

SIR – Your piece on the new nominee to run America's Environmental Protection Agency obscures real concerns about the Bush administration's environmental policies ("Blowing in the wind", August 16th). It is not about markets versus command-and control. It is about whether to protect our health and our climate from dangerous air pollution or not. The Natural Resources Defence Council supports market-based "cap and trade" proposals to strengthen the Clean Air Act and begin curbing global warming. Mr Bush opposes bipartisan bills that would do just that. His so-called "clear skies" plan would put more pollution in the air than current law faithfully enforced, and ignores global warming.

The president rejected a stronger and faster power-plant clean-up plan (still in cap-and-trade form) that his own administration's studies show would yield health benefits of more than $60 billion each year (from avoided deaths, hospitalisations, asthma attacks and sick days) while costing the power industry just $3.5 billion more. Who has the high ground on benefits and costs?

David Doniger
Natural Resources Defence Council
Washington, DC

Chaos theory

SIR – You underestimate the long-term value of chaos to modern societies ("Democracy as chaos", August 9th). In the decades following the second world war, America strayed frequently into political gridlock at the national level, almost always to the benefit of the nation. Americans long ago observed the threat to life, liberty and property while legislatures are in session. The only known antidote—meaningless infighting—is part of America's genius. When elected officials squabble bitterly and obsessively among themselves, everyone else is freed to get on with productive life. Problems arise when politicians and civil servants stop fighting and agree with one another. To America's great good fortune, the Clintons expanded the scope and consequent benefits of national disunity.

Californians have now taken the next step along that path. As preference for such direct action spreads, many more politicians will divide their attention only between re-election and avoidance of a recall. The resulting paralysis could usher in a true economic miracle. In anticipation of this new and exciting form of democratic progress, I have already prepared the forms for the recall of Governor Schwarzenegger.

Frank McCormick
Eastsound, Washington

Fat of the land

SIR – The Atkins diet may indeed work but it is probably for reasons simpler than those put forward by its proponents ("The Atkins economy", August 16th). The human body is optimised for a Palaeolithic hunter-gatherer diet. Wild meat, fish, shellfish, fruits, roots, leaves, nuts and possibly dairy products are what we are best designed to live off. Starchy grains and tubers, and farmed meats are relatively modern innovations that gently disrupt our digestive systems and thus cause us to gain weight.

Sadly, this ideal diet is too expensive for most people, and it is into this gap that steps the food industry—which started the whole issue by producing ever-cheaper, ever-poorer foodstuffs—with its diet products.

Pieter Hintjens
Brussels

SIR – In "On Drink" (1972) Kingsley Amis expounded criteria for a satisfactory diet: it should lose you weight without reducing your alcoholic intake in the smallest degree. "The Boozing Man's Diet",

therefore, allows free access to wine but otherwise closely resembles the Atkins diet's high-protein, zero-carbohydrate regime. Amis did recommend that one keep one's wines as dry as possible and that one should stick to low-carbohydrate beers.

Michael Kingsley
Nuuk, Greenland

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Poland and the EU

A nervous new arrival on the European Union's block

Aug 28th 2003 | WARSAW
From The Economist print edition

Poland is by far the biggest of the countries joining the European Union next year. But it must also do most to get into shape

Get article background

“WITH hope and apprehension and anxiety and uncertainty,” replies one Polish official when asked how he views his country's entry into the European Union next year. The Polish people appear more enthusiastic: 77% said yes in June to joining the EU in a referendum with a 59% turnout, a strong showing by national standards. But within government the mood is more hesitant, even nervous. Officials worry that Poland has been slow in preparing for the administrative challenges of EU membership, and slow in fixing a clear strategy for advancing the country's interests within the Union.

The same could easily be said of other countries among the ten due to join the EU in May next year, eight of them from central Europe. But Poland is in a category of its own. With almost 40m people, it accounts for roughly half the population and half the GDP of all ten incoming countries. It will have more votes in the Council of Ministers, the EU's main legislature, than any country bar Britain, France, Germany and Italy. How Poland handles itself within the EU will be a matter of vital concern not only to Poland, but to all Europe too.

It may well be in for a rocky start. One foreign diplomat in Warsaw fears that Poland will fail to master all the EU's labyrinthine farming and food-safety laws by the time it joins, allowing other EU countries to block its farm exports, using what the EU calls “safeguard clauses”. It might also fail to muster enough well-planned and well-managed projects to claim its full share of EU development funds, leaving it a net payer into the EU budget. The result would be anger among Poland's millions of farm workers and Eurosceptics, playing into the hands of populist politicians such as Andrzej Lepper, a pro-small-farmer nationalist whose Samoobrona (Self-Defence) party vies for second place in the opinion polls behind the ruling Left Democratic Alliance, and who will be hoping to improve on his current 11% of parliamentary seats when Poland next goes to the polls. “If they are net payers, and if there are safeguard clauses, then it will be Lepper in 2005,” says the gloomy diplomat.

The European Commission, the EU's executive arm, will freshly assess Poland's preparations for entry in

an annual report this autumn. Last year it said Poland needed to make “major efforts” in its farm sector, and expressed “serious concerns” about the country's veterinary standards. It reported progress in preparations to absorb structural funds, but said that administrative capacities still needed improving “substantially”.

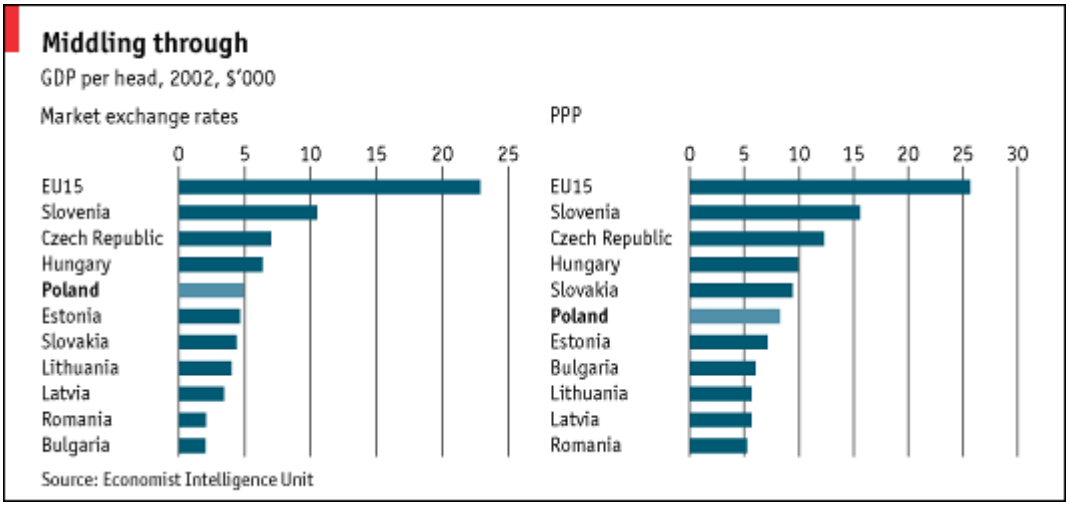
Poland is likely to get more such warnings and urgings this year, especially on food safety. But civil servants fear that time is short and political leadership is weak. There is strikingly little enthusiasm for the struggling, unpopular, left-wing government of Leszek Miller, the prime minister. The installation of a new agriculture minister last month, at so delicate a stage in preparations for EU entry, can scarcely have helped.

Mr Miller stood back from the EU referendum campaign for fear of turning the vote into one on his own government. But when the happy surprise of a decisive result lifted the national mood, he set about profiting from it. He called an immediate vote of confidence, which his government won despite its minority in parliament, and he seems confident now of holding on to power until the next general election, due in 2005, an outcome far less likely before the referendum.

It is unclear what Mr Miller will do with power while he retains it. His government has been distracted and debilitated by scandals. Economic policy was hostage to a long confrontation between Mr Miller's economics minister, Jerzy Hausner, and his finance minister, Grzegorz Kolodko, until Mr Kolodko resigned on June 11th. Mr Hausner now needs to find ways of stimulating the economy, hit by slack demand from western Europe and falling investment, without feeding a budget deficit which approached 7% of GDP last year. The business cycle is turning up: the economy may grow by about 3% this year, against a miserable 1.3% achieved last year. But Poland's early entry into the euro zone, which would require a budget deficit of below 3% of GDP, seems less and less likely. Most analysts now expect it in 2009-10 at the earliest, rather than in 2007, as the Polish central bank would prefer.

The weak economy and the continuing scandals have encouraged a mood of national cynicism. Recent polls suggest that less than a quarter of the public supports Mr Miller's government. A perceived rise in corruption has sharpened disdain. More than two-thirds of Poles rank corruption as a big problem, against a half in 2000 and one-third in 1991.

Among Mr Miller's opponents, the have-nots tend to gravitate towards Mr Lepper, the haves to two opposition parties of the centre-right, Law and Justice, and Civic Platform. Further out on the right there is the League of Polish Families, a Catholic nationalist party which alone opposed EU entry.



The jockeying of these diverse opposition parties around a weak and demoralised government means little certainty about the direction or consistency of policy and little scope for the government to inspire or steer public opinion. Poles were in a pro-EU mood when they voted in June, but attachment to the trappings of sovereignty remains strong enough for the national mood to go lurching the other way if membership produces few clear benefits. Poland's ministers and diplomats could wish for better

conditions at home when they are trying to signal confidently in Brussels what their country wants from the EU, and what it can offer the EU in exchange, in the long run.

The lack of vision in domestic politics and the fragile state of the economy mean that Poland will probably enter the EU looking mainly for short-term gains, preferably bankable ones, from any negotiation. “First priority, establish strength; second priority, use that strength,” says one Polish official, who makes no secret of his admiration for Spain's self-centred negotiating style when it joined the EU in 1986.

A louder voice, please

Even before it joins, Poland wants to defend the weighting of votes in the Council of Ministers fixed by the Nice treaty of 2001. This will give Poland (and Spain, which has roughly the same population) a generous 27 votes in the enlarged council when issues are decided by majority voting, only slightly less than the 29 votes apiece for Britain, France, Germany and Italy, which have much bigger populations. The EU's draft constitution, presented last month, proposes a new system: a simple majority of countries would be able to carry a vote in the council, so long as those in the majority represent at least three-fifths of the EU's population. Poland would lose clout under this system, so its opposition goes deep—much deeper than its other main professed worry about the draft constitution, the absence of any reference there to God, an argument that comes awkwardly from a country, however Catholic it may be, where the prime minister is an atheist and the president an agnostic.

Once in the EU, Poland will want to maximise the money it gets from the EU budget, mainly through farm subsidies and through the “structural funds” allocated to poorer countries and regions. It will also want to resist any new regimes and rules that impose higher costs or heavier burdens of regulation on business or government in areas such as the environment, labour, taxation, competition and state aids. Poland thinks it has enough on its plate complying with the existing EU rulebook, some parts of which it will need another 12 years to implement.

Poland accepts that Germany, the Union's main paymaster, will not agree to raise the legal limit on total EU budget spending above its current level: 1.27% of the EU's collective GDP. But with planned EU spending this year barely above 1% of GDP, Poland believes that it can and should be raised substantially in future years towards the legal ceiling to meet the development needs of new members.

Be fair to our farmers

Poland is also willing to accept the current rough breakdown whereby almost half of EU spending goes to agriculture, under the common agricultural policy, and one-third to the structural funds. But on agriculture, Poland wants to see its own farmers paid the same subsidies as those in current EU countries—which, under current plans, may not happen until 2013. It also wants the EU to direct more money towards rural development, even if that means giving less to actual farmers. These aims may bring conflict with France, the main beneficiary of the current system of farm subsidies, and with Britain, which would rather see the EU spend less of its money on agricultural subsidies in the first place.

The hopes of Poland, and of the other accession countries, for a big share of the EU's structural funds will also meet tough opposition. The countries getting a lot of cash now, led by Spain and Greece, will not want it cut off just because other, poorer countries are joining the Union. Nor will the countries picking up the bill want to pay out more to anybody. Poland thinks it can win Spain as an ally if it argues for phasing out (rather than cutting off) funds to regions now receiving them, alongside payments to new members. But precedent suggests that Spain will look first to its own interests, if money proves tight.

The getting and spending of quick money risks being the main activity by which Polish governments and Polish public opinion will measure the country's “success” in Europe. That makes for a dangerous course. Reversals are possible, given that Poland will be haggling against equally determined and more experienced countries in Brussels. For some other accession countries, integration into Europe is welcomed almost as an end in itself, but this line goes down much less well in Poland, where even those who favour EU integration tend also to have a strong attachment to national sovereignty. Poland's strong pro-Americanism tempers its European instincts as well. It does not want to go too deep into Europe, if that means leaving America behind.

Poland's attachment to its sovereignty need not mark it out much in Brussels, where all the big EU

countries have come to favour co-operation among governments over more surrenders of power to the EU's supranational institutions. But reconciling strongly pro-American and pro-European policies, both of which Poland professes, will be more of a challenge for its diplomats. The Iraq war has helped divide the EU into admirers and resenters of American power, with Britain leading the first camp, France the second. Poland has entered the British camp, but would much rather the EU was not at odds with itself or with America. A choice between America and Europe is one “between mother and father—and we love them both,” says an official.

Pals with everyone, if possible

Poland has a useful ally in Britain, but it would be far more comfortable if Germany, too, was squarely in the pro-American camp. Poland had hoped and expected to find itself drawing closer to Germany as enlargement pushed the EU's centre of gravity eastward. Instead, Gerhard Schröder's government has been turning more towards France, opposing America's war in Iraq and even exploring a triangular alliance of sorts along with Russia. The Poles are dismayed, but they say Mr Schröder's anti-war stand has at least helped clarify their own policy for Europe. If even Germany is now considered an unreliable ally by America, the Polish thinking goes, then Poland must be a super-reliable one, so that America will not lose interest in continental Europe entirely.

Poland's tack in the EU will probably be to join in talk about a European security and defence policy, because it wants to be seen as a good European, but to do as little as possible in practice, at least until transatlantic relations improve dramatically. Poland's bottom line is that the EU should do nothing to diminish or challenge the role of NATO, which, for all the doubts about its future, still keeps Europe and America together. “It's the Poles and Hungarians and Czechs who are the ‘old Europe' really,” snipes a German MP close to Mr Schröder. “They're the ones still wanting nuclear protection from the Russians.”

Polish officials twitch at the caricature. They say that NATO is a force for global security, that Russia is no threat to Poland, and that relations between Poland and Russia have never been better—which is probably true, if not saying all that much. But there remains an unspoken part of the Polish assessment. Russia may not be a threat on a one-year or five-year view, but on a 50-year view, who would dare make predictions? And whatever the possible threat, from near or far, Poland still sees America as its best ally.

When Poland sent troops to join America's invasion of Iraq, this was not so much to say thank you for past help but as “a modest investment in reciprocity” for the future, says one official. Public opinion opposed the gesture, but it seems to have worked out well enough for the government. Poland's prestige has risen, and no Polish lives were lost in the war. The experience of Iraq has made it easier, not harder, for Poland to support any future American military actions, says one western diplomat.

Don't forget our eastern friends

For all its Atlanticism, Poland sees the EU, too, playing a big part in its future security, but through foreign relations rather than defence policy. Poland wants to be inside the EU, but it wants the EU to roll on eastwards, stabilising and even embracing Poland's neighbours beyond. This year Poland has been arguing quietly for an “eastern dimension” to the EU's external policy, which would give Ukraine and Moldova—and perhaps even Belarus, if that country can shed or curb its near-dictator, Alexander Lukashenka—deeper ties with the EU. Privately, Poland hopes that they too can join the EU some day, though it hesitates to say so publicly. It wants them as prosperous, stable and accessible neighbours, not as poor and rackety ones cut off by an EU border. With Ukraine especially it shares much history, not all of it happily.

Poland is moving boldly, as an EU newcomer, in reaching for so delicate a dossier. But the European Commission has no very clear plans of its own for an *Ostpolitik*, and most EU governments are too busy worrying about next year's enlargement to think about adding even more countries later. Poland fears that unless it raises its voice now, Ukraine, Moldova and Belarus will be relegated to a place among the many diverse countries with which the EU wants to have good neighbourly relations but which it rules out as future members.

EPA

That wise Iraq investment

One big problem in all this is that Ukraine, Moldova and Belarus are linked intimately to Russia, through the Soviet Union in past decades and through the Russian-dominated Commonwealth of Independent States now. Any policy for drawing them much closer to the EU would have to include some very good ideas for keeping Russia happy at the same time. It is hard to imagine what those ideas could be. Russia has no serious ambitions to join the EU, and economic recovery is helping its re-emergence as an effective regional power. It may resent talk that its protégés in the region would be better off under the EU's influence instead.

Poland's view seems to be that, even so, it has nothing to lose by prodding the EU to look east. One modest result could be more EU money for cross-border projects benefiting not only Ukraine, Belarus and Moldova but also the eastern provinces of Poland, which next year will become the poorest regions in the whole EU. And from Poland's point of view, almost any policy which encourages the EU to engage collectively with Russia will be better than the lack of an EU policy which leaves national capitals vying for Russia's favours.

If the EU can only export the “soft” security of democratic values and trade ties to its eastern hinterland, while America offers the “hard” security of smart bombs and nuclear shields through NATO, the fit for Poland could hardly look better. The two mechanisms might not always mesh perfectly, but that would be a secondary worry. “If you have the historical experience of Poland,” says Janusz Reiter, a Warsaw think-tank boss and former ambassador to Germany, “then you have a strong need of security.”

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George Bush's standing

As summer days drift away

Aug 28th 2003 | WASHINGTON, DC
From The Economist print edition

AFP

A host of problems beset the president, but the economy matters most

Get article background

IF GEORGE BUSH loses the presidency next year, he could well look back on this summer as the moment when things began to slip. While he has been “sleeping comfortably [at his ranch] in Crawford”, to borrow a not-altogether-fair jibe from Howard Dean, the Democratic front-runner, the news from Iraq has worsened, and the economic recovery continues to be jobless. It may just be the mid-term blues, but Mr Bush will remember the experience of his father. When he went off on holiday in 1991, the first President Bush was best known as the conqueror of Iraq. By November he was the out-of-touch, burbling man who didn't understand the plight of normal Americans.

The polls certainly carry some unpleasant tidings for the current President Bush. His approval ratings have gradually worsened, now hovering around 55% (well below his father's rating of around 70% in August 1991). For the first time since September 11th, voters are saying that they would prefer to elect somebody else. Even the thought that the Democrats may nominate Mr Dean, a liberal governor from Vermont, is not as comforting as it may appear (see Lexington).

One particular, unfair act of God, the electricity blackout on the east coast, has allowed Democrats to point to Mr Bush's ties with the fiendish energy industry. This week, petrol prices hit a record average of $1.75 a gallon, with Californians paying $2, thanks in part to the blackout and to a burst pipeline in Phoenix which has disrupted supplies in the west.

There are also niggling rows for Mr Bush to soothe. John Ashcroft, his famously intolerant attorney-general, has been sent off on a tour designed to deflect criticism, from both left and right, of his beloved USA Patriot Act. The General Accounting Office, the investigative arm of Congress, has just issued a report that complains again about Dick Cheney's refusal to release any useful information about his energy task-force. Mr Bush is also in trouble for trying to fiddle with the Clean Air Act.

All summer stories, you might say. But the two main causes of Mr Bush's current plight will loom over the rest of his presidency: Iraq and the economy.

The number of troops killed in Iraq since Mr Bush declared “major combat over” on May 1st has now surpassed the 138 who died in the war. With e-mails streaming back home from unhappy troops in

Baghdad, weapons of mass destruction unfound and the American administrator in Iraq asking for more money, the public is beginning to get nervous. A *Newsweek* poll last week showed nearly seven in ten Americans concerned that America will get bogged down in Iraq.

The Democrats are doing their best to attract those voters. Mr Dean, who opposed the war in the first place, is particularly savage. But Senator John Kerry, who voted for the Iraq resolution, is now complaining about insufficient planning and training. The Democrats generally think Mr Bush needs to give the UN a bigger role, to bring in troops from other countries (as now looks like happening, see article).

Mr Bush is also under some pressure from the Republican side. His old sparring partner, John McCain, who has just returned from Iraq, wants Mr Bush to send another division—some 20,000 soldiers—to reinforce the 140,000 already there. The neo-conservatives are fretting that the Bush White House (which, lo and behold, they do not control) seems less than committed to their dream of reshaping the Middle East. They worry that, having won the war, Donald Rumsfeld, the defence secretary, is now going to lose the peace by stubbornly refusing to send enough troops to do what is needed in Iraq.

Both Mr Bush and Mr Rumsfeld fired back this week, saying, in effect, that there would be no retreat and that there were enough troops in Iraq already. This may be partly based on the enormously optimistic belief that America can “transform” peacekeeping as it has transformed warfare (and so do it with fewer people). But politics is also at work. Mr Bush's people are determined to avoid the “mission creep” analogy with Vietnam, or any sense of setback.

They are probably right to do so. Peter Feaver at Duke University, who has studied the correlation between wars and public opinion, argues that most Americans care more about eventual victory than current casualties. He divides the electorate into four groups: those who hate war (in rough terms, around 15% of the total); those who will not accept casualties (20%); those who support most wars at any price (35%); and those who will tolerate casualties as long as they can see victory (30%). This latter group still seems to be sticking with the president. The generally pessimistic *Newsweek* poll also showed 56% of voters saying they were prepared to see the troops stay for two years; by contrast, just 5% want to bring them home now.

Fundamentally, however, the economy is more important to Mr Bush's future than Iraq. Larry Sabato, director of the Centre of Politics at the University of Virginia, puts it this way: “A good economy can compensate for a bad Iraq; a good Iraq cannot compensate for a bad economy.”

The economy has shown one or two signs of growth: new jobless claims are now just below 400,000 a week, industrial production is fairly strong and the stockmarket is rallying. But, in the end, the main concern for many voters will be jobs—and Mr Bush's presidency has seen more than 3m of these disappear. Unless the economy picks up, he could go into the election with the worst record since Herbert Hoover. Mr Sabato points out that the economy could hurt Mr Bush in key states like West Virginia, which he poached from the Democrats in 2000 by stressing economic issues. West Virginia now has an unemployment rate of 6.8%, compared with the national average of 6.2%.

Unlike his father, Mr Bush has been doing his best to look as active as possible. But he faces one problem. When it comes to economic policy, he has already used up most of his ammunition. Interest rates can hardly go much lower, and another tax cut would produce squeals of outrage about the federal deficit, this week estimated by the Congressional Budget Office to be anywhere between $1.4 trillion and $4 trillion over the next decade, depending on how many tax cuts and spending plans stay in place. In the economic war, throwing more battalions at the problem may not be an option for the president.

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California's recall election

Cruz in the sun

Aug 28th 2003 | LOS ANGELES
From The Economist print edition

Attention shifts to an alternative Democrat

Get article background

IF CALIFORNIANS were to vote with their stomachs in the election to recall Governor Gray Davis, Arnold Schwarzenegger would romp home without breaking a sweat. Taco Bell, a restaurant chain, has launched a statewide poll: Mr Schwarzenegger gets a vote for every Beef Crunchy Taco consumed, while Mr Davis's support is counted in Chicken Soft Tacos. So far, 54% of taco-eaters support the Terminator, while Mr Davis gets only 3%. “Sure, it's a little different,” claims Taco Bell. “But so is this election.”

And it continues to surprise. The latest poll by the *Los Angeles Times* shows 50% of voters in favour of recalling the governor, with 45% against. And if Mr Davis were to lose the battle, Cruz Bustamante, his lieutenant-governor, is now his preferred replacement. Mr Bustamante gets 35%, 13 points ahead of Mr Schwarzenegger.

Other polls (and the polls for this race are impossible to rely on) show less enthusiasm for the roly-poly, balding, bespectacled Latino; but Democrats seem nonetheless to be rallying to a new cry of “No to recall, Yes to Bustamante”. The lieutenant-governor has secured the endorsements of heavyweight unions and leaders of the state Democratic Party. Mr Davis is naturally keeping his distance, promising to sign off measures—from driving licences for illegal immigrants to expanded gay rights—that are meant to bolster his traditional base. Over the past few days he has described Mr Bustamante, whom he doesn't much like, as the most qualified of the candidates, although he has stopped short of endorsing him.

The Democrats still have a long way to go to win this race. Mr Davis's popularity crawls along at rock-bottom. Traditional supporters are still angry. According to the *LA Times* poll, over 40% of union members are behind the recall effort, and only 39% of them would vote for Mr Bustamante. Combined support for the top Republican candidates, at 47%, far outweighs the potential vote for the lieutenant-governor.

Yet the sheer number of Republican runners could let Mr Bustamante squeeze in, unless a few of them drop out. Things started to look up on August 23rd, when Bill Simon, one of the four main Republican candidates, decided to withdraw from the race. According to Allan Hoffenblum, a Republican political consultant, this is likely to help Mr Schwarzenegger. Arnie, with his movie-star heft, still leads the pack, but support for Tom McClintock—a state senator, and the only conservative left among the front-runners—has doubled to 12% since early July. And it is said that three-quarters of Republicans will vote for whoever is ahead on the day.

So Mr Schwarzenegger has been busy serenading conservatives on radio talk shows. Although he has now clearly said that he supports limited gun control, abortion (with restrictions) and the medical use of marijuana, he is against gay marriage and likes the idea of prayer in the public schools. And when Warren Buffett, the billionaire businessman and Democrat who is now his economic adviser, said that California's property taxes were too low, he was told he would have to do 500 sit-ups if he ever raised the issue again. Proposition 13, the 1978 initiative which limits property taxes, is sacrosanct to most Californians—and to Donald Trump, the New York property magnate, who, according to the *Chicago Sun-Times*, promptly called Mr Schwarzenegger to beg him not to touch it.

Mr Schwarzenegger has given few clues as to how he proposes to bridge California's deficit, which, on rosiest estimates, is expected to be $8 billion next year. More taxes are not part of his programme. He proposes to cut spending, but will take no money from education, which makes up 40% of the budget. If elected, he would get state finances audited. So why bother outlining details of spending cuts before the

audit? Mr Schwarzenegger believes voters are not interested in details anyway.

All the candidates expect to collect more money by eliminating waste, fraud and abuse. That hoary old stratagem should fool no one. Unless the economy miraculously recovers, sorting out the deficit will require painful measures in the short term—either more taxes, or deep cuts in social programmes—and serious structural reform over the longer term. Mr Bustamante, in his “Tough love for California” budget plan, proposes tax hikes of close to $8 billion that would hit the wealthy, commercial property, smokers and drinkers. But touching property taxes would require revisiting Proposition 13, and not even tough Arnie dares do that.

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Alabama's Black Belt

Life after cotton

Aug 28th 2003 | EUTAW AND SELMA
From The Economist print edition

Poor, poorly serviced, underemployed—but not lacking for aid or ideas

CROSS the Edmund Pettus Bridge into Selma, Alabama—best known as the site of a bloody 1965 civil-rights confrontation—and you will find yourself on Broad Street, one of the wide boulevards peculiar to the South. In the brutal heat, locals fan themselves in front of beautifully preserved turn-of-the-century churches. But the shop windows are mostly dusty, the signs faded, and there are few signs of new businesses. Dallas County, where Selma sits, has nearly 14% unemployment, more than double the state average.

Well behind
Selected indicators, 2000

	Black Belt*	United States
% black	52.9	12.3
Median household income, $†	23,954	41,994
Life expectancy, years	72.2	76.9
% with at least high school degree	64.0	74.2
Unemployment rate, %‡	11.0	6.2

Sources: University of Alabama; Alabama Department of Industrial Relations
*19 Alabama counties †1999 ‡July 2003

Dallas is one of 19 Alabama counties that make up the state's portion of the “Black Belt”, a band of rich soil that stretches from eastern Texas to southern Virginia. In Alabama's section, more than half the people are black; and almost everyone is poorer, unhealthier, less well-educated and with worse jobs than those in the rest of the state. Almost half the counties have 12% unemployment or higher. Median household income in the Black Belt is more than $10,000 less than Alabama's average, and life expectancy nearly two years shorter.

Alabama as a whole, with its economy heavily reliant on manufacturing, has managed to offset the downturn a little. A Mercedes-Benz plant outside Tuscaloosa, opened in 1995, has brought jobs, and two more plants, from Honda and Hyundai, will be running by mid-2005. But of 25 new deals announced in the state between January and May, bringing more than 4,800 jobs, only three were sited in Black Belt counties. Companies, after all, need good roads. At last, the state is keeping its promise to widen US Highway 80 to four lanes between Demopolis, in Marengo County, and the Mississippi border 22 miles away, but the $90m project will take at least eight years.

The western counties are most excited about a joint plan announced in June between Alabama and Mississippi, to create a two-state authority for economic development in the region. The authority, still under development, intends to pick out four sites for industrial parks, two of which would be in the Black Belt; the states would own and market the sites together, and split the revenues. The parks would bring relatively low-skilled, assembly-line jobs, but companies might still be tempted to move there. “Look at it this way,” says Neal Wade of the Alabama Development Office: “if you're a company that depends on federal support, you make four senators happy, not just two.”

Many local communities have taken to buying, and marketing, their own industrial parks. Philis Belcher, who heads the Greene County Industrial Development Board in tiny Eutaw, frequently drives visitors to the county's 1,000-acre park. There she pulls out what she calls “my favourite map”, showing the park as a transport hub: a railway crossing, a port on the Tennessee-Tombigbee Waterway and Interstates 20 and 59 less than a mile away. Nearby Demopolis has two industrial parks; Selma has five.

Like Mrs Belcher, the Black Belt's economic developers are optimistic, advertising a loyal workforce largely untouched by unions—and plenty of tax breaks. The state has also promised worker training and other forms of aid. Alabama can ill afford to lose the corporate cash, but such incentives could be the

best way to break the Black Belt's cycle of poverty.

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Church and state

Go down, Moses

Aug 28th 2003 | MONTGOMERY
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The Ten Commandments get short shrift

AP

IN 1984 Richard Neuhaus wrote an influential book lamenting the general banishment of religion from the American public square. This week saw the banishment of a very particular symbol of religion from a very particular public space—the rotunda of the state courthouse in Montgomery, Alabama.

One quiet evening two years ago, Alabama's chief justice, Roy Moore, installed a two-ton granite block inscribed with the Ten Commandments in the rotunda of his courthouse. The result was a predictable row between first-amendment purists (who sued to have the block removed) and evangelicals.

A year ago a federal judge, Myron Thompson, ruled in favour of the purists. Mr Moore said he did not recognise the jurisdiction of the federal courts in this matter—inflammatory stuff in George Wallace's state. But on August 21st eight associate justices voted not only to get rid of the monument but also to suspend its installer from the bench.

The monument's imminent removal attracted crowds of protesters to the courthouse. On some nights as many as 500 people gathered there, praying and singing. But the authorities chose their moment carefully—9 am, when many of the faithful were at work and only a hard core of 150 were left. “Let their wheels crumble!”, the protestors screamed, as workers wheeled the monument away on a hydraulic jack. But the wheels remained intact.

Mr Moore used the issue of the Ten Commandments to rise from obscurity in rural Alabama to the highest judgeship in the state—and thence to national notoriety. But his future may be dim: he faces a trial before the Court of the Judiciary of Alabama to see whether he should lose his job for good.

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About sponsorship

America's militias

The perils of recycling

Aug 28th 2003 | CHICAGO
From The Economist print edition

Excise hate from one place, and it pops up in another

IN JULY, barricaded inside a house in Newaygo County that was stocked with army ready-meals, piles of gold and silver coins, guns, ammunition and a gas mask, a fugitive militia member shot and killed a Michigan state trooper. Armoured vehicles launched grenades into the house, which burned down. Only later did authorities realise that the man they were seeking, Scott Woodring, had escaped into the woods. When they caught up with him a week later, he met his end in a hail of bullets. His car contained sheets of unintelligible, vaguely biblical, writings.

Dramatic stuff, and a reminder that some Americans still spend their time playing war games, railing against government plots and hoarding beans. The rural mid-west and north-west are home to more of them than elsewhere. But the bloody end of Mr Woodring does not signal the revival of militias. On the contrary, it is a pale shadow of the movement that existed in the 1990s. Key militia leaders and hundreds of members are in jail. Units have disbanded. Infighting persists. The Southern Poverty Law Centre (SPLC), which tracks extremist groups, says the movement, which peaked in 1996 with 858 active militia groups around the country, has fallen to only 143 today.

The militia movement started in 1994 after the deadly incidents involving federal agencies at Ruby Ridge, Idaho, and Waco, Texas, and gathered momentum among rural Americans who embraced conspiracy theories as tightly as they held on to their guns. It is part of the broader “patriot movement”, a group of far-right-wing, anti-government organisations that also includes “sovereign citizens” and tax protesters. The 1995 bombing in Oklahoma City by Timothy McVeigh, who had loose militia ties, focused attention on the groups and brought them new recruits. The Michigan Militia, once the largest in the country, drew particular scrutiny because Mr McVeigh's pals, the Nichols brothers, were believed (wrongly) to be active members. Crackdowns followed. In the late 1990s, several militia leaders were convicted of plotting to bomb government buildings and assassinate officials.

But the flurry of arrests accounts for only part of the movement's demise, says Mark Potok of the SPLC. Another key factor was the failure of dire predictions to come true. Some militia leaders had forecast that the federal government would impose martial law, or that the United Nations would take over the country. The biggest fiasco, though, was the non-appearance of Armageddon at the millennium. “All their leaders had predicted the end,” says Mr Potok. “Militia members were running around buying generators, 1,000-pound sacks of lentils, and thousands and thousands of water bottles.” When the world failed to end, their credibility was sorely tested. Mark Pitcavage, who tracks extremist groups for the Anti-Defamation League, reckons only a few thousand active militia members are left.

This sounds like good news. But in the constantly churning, paranoid world of right-wing extremist groups, another more worrisome trend has emerged: neo-Nazi and white hate-groups, which have grown steadily since the 1990s. The SPLC estimates there are over 700 hate organisations (including black separatist groups) nationwide, with more than 100,000 active members and many more supporters: the highest count in 20 years.

The militias, too, could make a comeback. “I was concerned Scott Woodring would become a militia martyr when his house caught fire,” says Mr Pitcavage. “The militia world was confused about what to think, but ultimately he was denied martyr status. But if there's another deadly stand-off and it seems the government is responsible for deaths, these groups could be revived. The extreme right recycles everything.”

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Entertainment

Le Mans on your street

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From The Economist print edition

AP

Another reason to stay home at night

BY DAY, Lindbergh Boulevard in south St Louis County is just another road through a suburban thicket of fast-food restaurants and shopping centres. By night, particularly at weekends, it is a cruising area for teenagers with nothing else to do. But “cruising” is no longer quite the word for it.

Near the Phillips 66 service station, two cars suddenly roar forward from an unmarked starting line to an imaginary finish. They accelerate side by side until one inches ahead. This is a street race, undaunted by anything else that may be on the road. In a few seconds, it is over.

Another favourite spot lies less than a mile away on Lemay Ferry Road, a four-lane highway that threads through subdivisions with a long sweeping curve. On this stretch of illegal race-track, two teenage passengers were killed in July last year. The 21-year-old driver, the son of a county policeman, has just been sentenced to five years in prison.

Street-racers are dying on roads across the country. In San Diego alone, 16 such deaths were reported in 2002. The “sport” has moved from the back roads to the main streets, helped by websites that list places and times and give advice on evading the police. Street-racers have their favourite cars (curiously, Japanese Hondas and Mazdas) and their own role models, from films such as “The Fast and the Furious”, in which racing and wrecking occur on busy streets crowded with innocent drivers.

Police everywhere have tried to stop the practice. Several states have legislation pending to curb teenage drivers. Extra patrols, arrests and car-confiscations can succeed in displacing the races, but not ending them. The National Hot Rod Association, which represents professional drag-racing, has also tried to help, encouraging affiliated tracks to open their facilities to street-racers for safe, controlled contests.

At one such track, the Gateway International across the river from St Louis, street-racers can compete several nights a month for $15. But the programme has not taken the sport off the streets. Part of the attraction of street-racing is the thrill of getting away with it. Until that thrill passes, the racing will go on.

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Lexington

Dreams of Jimmy Dean

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From The Economist print edition

A toothy nightmare for Republicans

AS KARL ROVE drifts off into the fretful sleep of all great political operatives, one name probably consoles him: George McGovern. The president's opinion-poll ratings may be sky-diving, Iraq may be morphing from triumph to quagmire, the much-vaunted recovery may be jobless, but the Republicans' main strategist can still count on those crazy Bush-hating Democrats to nominate Howard Dean, the darling of the anti-war movement. And, just like Mr McGovern, the scourge of the Vietnam war in 1972, he can be trounced at the polls.

The McGovern comparison is now the political orthodoxy on Mr Dean. With the Vermonter leading the polls in Iowa and New Hampshire (where he leads John Kerry by a massive 21 points) and downloading money off the internet by the clickful, the centrist Democratic Leadership Council is already screeching with alarm. Far from denying the McGovern link, Mr Dean's two most loyal constituencies—young idealists and Volvo-driving professionals—positively celebrate it. (Indeed, some of the older fans probably worked for Mr McGovern in their impecunious youth.) Full disclosure: this column once described Mr Dean as two parts McGovern to one part McCain.

So Mr Rove can sleep soundly? Well, consider another name from the past. Possibly, just possibly, the real comparison should be not with Mr McGovern but with Jimmy Carter.

Mr Carter may be no more than a cuddly old joke to many conservatives nowadays. But back in 1976, he was certainly no joke to Gerald Ford. Mr Carter (to whom Mr Dean talks regularly) seized the White House by presenting himself as a very different creature from the hapless president he later became. The two great themes of his campaign seem familiar today.

First, Mr Carter sold himself as the voice of authentic America running against the phoney-baloney Washington establishment, a class in which he included Democrats as well as Republicans. He made great play of being a God-fearing southern governor who made his living farming peanuts. He encapsulated popular disgust with inside-the-Beltway by claiming that he wanted “a government as good as its people”, and he put enormous store in personal probity, promising the American people that “I will never lie to you.”

On his recent “Sleepless Summer” tour, Mr Dean's speech reached a climax when he swore he would make people “proud to be American again”. He presented the Democratic establishment as Mr Bush's moll—a cowed co-dependant making compromise after compromise on taxes and Iraq. High time, he cried, for a straight-talking doctor to stand up for the real America.

The second big comparison with Mr Carter is both men's capacity for defying political stereotypes—for mixing left-wing and right-wing ideas together. Candidate Carter captured the moral indignation of liberal America over Watergate; but he was also a southern Baptist who supported balanced budgets, denounced the welfare system for discouraging work and family values, and tried to cut red tape. Having begun 1976 as the choice of just 4% of Democrats, the peanut farmer cleverly circumvented the established veterans of both wings of his party, notably Scoop Jackson on the right and Morris Udall on the left.

Mr Dean is also much more eclectic than many people suppose. Yes, he opposed the war in Iraq, but he boasts that he would “never hesitate” to send American troops “anywhere in the world to defend our country”. Yes, as Vermont's governor he signed the most liberal gay-marriage bill in the country, but he supports gun rights and the death penalty. Yes, he promises more health-care coverage and more taxes on the rich, but he has cut government, reduced taxes and forced welfare recipients to look for work.

The clever thing about populism and political eclecticism is that they go hand-in-hand. What could be more outsiderish than defying party orthodoxies, picking up good ideas wherever you find them and avoiding becoming a prisoner of any of the party's interest groups? In the 1970s, many Democrats regarded Mr Carter as a man who could revitalise a party that was still too fixated on the New Deal. Mr Dean's populism also gives him that revitalising edge.

A peanut for your thoughts

As Mr Rove tosses and turns, he can reassure himself with several differences between 1976 and 2004. Mr Ford was running as the anointed heir of Richard Nixon just after Watergate. Despite the flap over Iraq, most Americans still trust Mr Bush. Even better, Mr Dean comes from the wrong part of the country—the liberal north-east. He will have a much harder time convincing independents of his conservative side than the southern Mr Carter had. And of course, ever since September 11th, Mr Bush has had the trump card of national security. Against a full-scale assault from Mr Rove's troops next year, a Nominee Dean will have difficulty explaining the subtleties of his position on defence.

But politics is a moving form of warfare. Mr Dean's stand on Iraq looks less controversial with every American soldier who is shot and with every day that passes without weapons of mass destruction being discovered. Moreover, Mr Dean is not staying still, waiting for Mr Rove to McGovernise him. In his current stump speech, he claims he can no longer be rude about Republicans because so many support him. And he has also reacted warmly to suggestions that he might choose General Wesley Clark as his running mate.

Just like Mr Carter in 1976, Mr Dean has a chance to exploit a widespread feeling of frustration with the direction of the country. To do that will surely need more mistakes by Mr Bush and extraordinary political skill on his own part. But it has already taken quite a lot of political skill to turn a no-hoper from a backwoods state into the front-runner in the Democratic field.

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Politics in Mexico

Mr Fox and Ms Fix

Aug 28th 2003 | MEXICO CITY
From The Economist print edition

Reuters

Mexico's president now has to share power with Elba Esther Gordillo (above) and the country's former ruling party

Get article background

BY TRADITION, Mexico's Congress begins its annual session on September 1st with the president's “State of the Union” address. In the old days of the ever-ruling Institutional Revolutionary Party (PRI), the nation hung on the words of an omnipotent president. Vicente Fox, whose historic election victory in 2000 broke the PRI's spell, has commanded similar attention, if only for novelty value. But this year, the spotlight will fall less on Mr Fox's announcements and more on the reply of Elba Esther Gordillo, the PRI's new leader in the lower house. For she has the power to make or break Mr Fox's presidency—and to influence whether or not her party returns to power in 2006.

In a mid-term election in July, the PRI increased its seats in Congress's 500-seat lower house to 224, within easy negotiating distance of a majority. Mr Fox's conservative National Action Party (PAN) was reduced to 148. Since the PRI is also the largest party in the Senate, it will control the legislative agenda for the remaining three years of Mr Fox's term. That amounts to a remarkable comeback for the PRI, which took a large part of the blame for Mexico's economic woes of 1982-95. Many pundits forecast that the PRI would fall apart after its humiliating defeat in 2000.

But which PRI has won real power again, and how will it use it? The party is deeply divided, and remains as opaque as in the days of one-party rule. Ms Gordillo is herself an example of this. On the one hand, she has been making lots of positive noises about reaching agreements with the PAN on Mr Fox's stalled programme of liberal reforms. Her fans portray her as ideally placed to break the deadlock between government and Congress of the past three years. “She understood the Fox election victory more than most, and understood that people wanted to change,” says Denise Dresser, a political scientist at ITAM, a university in Mexico City.

On the other hand, others scoff at this portrayal of Ms Gordillo as a would-be democratic moderniser. Could this be the same Ms Gordillo who as the long-standing leader of the teachers' union is one of the party's leading “dinosaurs”, as its authoritarian bosses are called? She has been called Mexico's “Jimmy Hoffa in a dress”. Like the Teamsters in the United States, Mexico's teachers' union has long been a byword for ruthless intrigue. The attorney-general's office only recently dropped an investigation into claims that Ms Gordillo was behind the killing of a dissident trade unionist in 1981.

In fact, like the rest of the PRI, Ms Gordillo is above all a pragmatist. She is an ally of Roberto Madrazo, the party's president, a similarly Janus-like figure. To advance the PRI's chances of winning the presidency in 2006, and her own of being its candidate, her priority will be to keep the party united. The PRI likes to think of itself, with some justification, as the only truly national party in Mexico. So it has always had to accommodate a wide range of interests and views. Without the glue of presidential power, that diversity risks degenerating into centrifugal factionalism.

In recent weeks, even as the PRI's leaders have been horse-trading with the government, various party factions have been straining against each other to influence the process. Alarmed by the good press that Ms Gordillo has been getting as a potential reformer, the “dinosaurs” have sounded warnings about going too far. They oppose most of the government's economic reforms, particularly a vital one to let private and foreign investors into the electricity, gas and oil industries.

Mention the idea that the PRI might back these reforms and Manuel Bartlett, a leader of the party's old guard who heads the Senate's constitutional committee, waves a copy of the party's manifesto for the July election. This declares that oil and electricity should be owned by the state. He says that the party's leaders “have to learn to ask for instructions” and that Ms Gordillo will find that “it's not the same to work in Congress as it is to run a union.”

The PRI's reformist wing, on the other hand, still hopes that the party can co-operate with the government on energy reform. But the party's legislators are fairly evenly split on this: Ms Gordillo won the backing of only 124 of the 224 deputies, standing as a “reformer” against an opponent identified with the old guard. So the easiest course will be to do nothing, or agree to only minor fiddles with energy legislation.

On other matters, Ms Gordillo has more scope for achieving party unity. The PRI will propose simplifying the tax system and creating an ombudsman to uphold the rights of taxpayers. It also has plans to cut bureaucracy. Santiago Creel, who as Mr Fox's interior minister is in charge of negotiating with Congress, is optimistic that the parties will agree on political reforms as well, such as streamlining the electoral calendar and ending a ban on the re-election of deputies and senators.

But these are relatively uncontroversial measures. When it comes to energy reform or competition policy, the PRI and Ms Gordillo seem likelier to act according to narrow political calculation than on the merits of the case. If so, that would be bad for Mexico. Would it be good for the PRI? A close reading of the July election shows that it was a defeat for the other parties rather than an unequivocal victory for the PRI: at 35% the party's share of the vote was lower than in the previous two national elections. For the PRI, good tactics might not add up to a winning strategy.

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Argentina and Iran

Tracks of terror

Aug 28th 2003 | BUENOS AIRES AND TEHRAN
From The Economist print edition

The explosive arrest of an ambassador

Reuters

Uncovering an Iranian connection

IN 1994, a car bomb outside a Jewish welfare centre in Buenos Aires killed 85 people and injured more than 200. The investigation, led by Judge Juan José Galeano, has dragged on for years and achieved little—until now. Last week, Britain acted on an international arrest warrant issued by Mr Galeano, and detained Iran's former ambassador to Argentina, triggering a diplomatic kerfuffle. On August 27th Belgian police briefly detained a second Iranian wanted by Judge Galeano; he was released after claiming diplomatic immunity.

The Argentine intelligence service, with its Israeli and American counterparts, has long accused Hizbullah, the Lebanon-based "Party of God", of carrying out the bombing with help from the Iranian embassy. The same alliance is also suspected in a similar attack in 1992 on the Israeli embassy in Buenos Aires, which killed 29.

Iran's government denies the claims. It has reacted with fury to the arrest of Hadi Soleimanpour, who is studying for a PhD at Durham University. Britain's government, which has tried hard to improve its relations with Iran, insists that the arrest is a purely judicial matter. The British courts will now decide whether there is sufficient evidence to extradite Mr Soleimanpour. But Iran sees the hand of the United States in the affair. Facing pressure to abandon its nuclear ambitions (see article), it wants the matter solved quickly, and has hinted that it may expel the British ambassador.

Certainly, the timing of Judge Galeano's request for the arrest is interesting. Argentina's spies were already tapping the Iranian embassy's phones before the 1994 bomb. Yet it was not until March this year that the judge requested the arrest of four Iranian officials (who had all returned home). Having been advised of Mr Soleimanpour's presence in Britain, and having received no co-operation from Iran in his quest for the four, this month the judge added him (and two others) to his list.

Mr Galeano is himself under investigation. He is accused not only of being dilatory, but of destroying evidence (he says he had nowhere to store it). This month an Argentine spy testified that Mr Galeano had paid one of a score of locals accused of involvement in the bombing $400,000 to incriminate police chiefs. Néstor Kirchner, Argentina's new president, has criticised the failure to solve the case. He has opened intelligence files to the courts, and allowed 14 intelligence officers to testify. He has also launched a crusade to clean up Argentina's judiciary, many of whose members are cronies of Carlos Menem, Argentina's president from 1989-99. So a high-profile arrest was useful to Mr Galeano.

Mr Menem is alleged to have taken a $10m bribe from Iran to cover up its involvement. He denies this. The interior minister at the time of the bombing has said that the government did not want to antagonise Iran out of fear of provoking a third attack. Argentina's trade surplus with Iran may also have played a part: Iran this week banned all imports from Argentina, which last year totalled $475m.

Mr Kirchner is said to be considering throwing his weight behind moves by relatives of the victims to remove Judge Galeano from the case. That may happen later this year, when another set of judges is due to complete the formal hearings in the case. They are expected to criticise Mr Galeano's work.

Sooner or later, the investigation in Buenos Aires might shed some light on claims that Iran operates two diplomatic services, one through the foreign ministry and another parallel apparatus, with ties to terrorist outfits and answerable to the regime's hardline clerics. But if so, which one did Mr Soleimanpour work for?

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Trade in South America

Recruitment drive

Aug 28th 2003 | SÃO PAULO
From The Economist print edition

Lula signs up a trade ally

ONE of Luiz Inácio Lula da Silva's first acts on becoming Brazil's president in January was to create a new top job in the foreign ministry, an under-secretary for South America. On August 25th Lula's South America-first policy bore fruit when he and Peru's president, Alejandro Toledo, signed a free-trade agreement between Peru and Mercosur, the embryonic customs union that Brazil dominates. Peru will join as an associate member.

Brazil's ultimate goal is a South American union that would merge Mercosur and the five-country Andean Community, to which Peru belongs. Bolivia, another Andean nation, is already an associate member of Mercosur. The remaining three have agreed to conclude free-trade negotiations with Mercosur by the end of this year. The agreement with Peru opens the way to “a true integration of South America”, declared Brazil's foreign minister, Celso Amorim. Brazil also touts South American solidarity as a way to get a better deal from rich countries in global trade talks and in the Free-Trade Area of the Americas (FTAA) promoted by the United States.

Integration will not happen quickly. Brazilian diplomats admit that the December deadline for a deal with the other Andeans, including the sub-region's two biggest economies, Colombia and Venezuela, may not be met. Colombia's industry is developed enough to worry about competition from Brazil. It is more tempted by the FTAA, which promises bigger markets. Venezuela has a fragile government, bitterly opposed by its entrepreneurs, and an economy that is enmeshed with Colombia's. Even Peru expects more gains from trading with the United States than with Mercosur, as Mr Toledo made clear.

The agreement with Peru, which has a large trade deficit with Mercosur, was not easy. To achieve it, Brazil and Argentina, Mercosur's second-biggest member, agreed to liberalise faster than Peru and the two smaller Mercosur partners, Paraguay and Uruguay. If agricultural imports from Mercosur surge, Peru will be allowed to block them. Mercosur's other regional trade deals—with Bolivia and Chile—have not yet produced spectacular increases in trade since they took effect in 1996.

Yet the agreement is an important step for Peru, which is something of a trade orphan. It was suspended from the Andean Community in 1992 because it cut its tariffs more than its neighbours, though it has since agreed a return to full membership. As well as improving its access to Mercosur's market, as an associate member of the group Peru will share in its presidential get-togethers. Mercosur's leaders have long stressed infrastructure projects to link their countries. This week Peru spoke of a 960km (600 mile) road from Brazil to the Pacific—a much-announced but environmentally controversial project.

Brazil will now pursue the other Andeans. Lula went on this week to Venezuela, where his officials unveiled a $1 billion credit to promote Brazilian exports. That partly reflects Brazil's anxiety about a 1994 trade agreement among Venezuela, Colombia and Mexico. “We have been losing market access because of this,” says Lúcia Maduro, an economist at Brazil's National Industry Confederation. Idealism is not the only reason for Lula's regional bent.

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The Caribbean sugar industry

Sweet and sour

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Sickly, but it could revive

ALTHOUGH it was built on slavery, the Caribbean sugar industry turned long ago into a branch of the welfare state, albeit a backbreaking one. Governments have bought social peace by pouring cash into overstaffed, loss-making sugar companies. This was possible because a protected market allowed Caribbean exporters to sell sugar to Europe at more than three times the world price. Now, changed European Union rules, and expected rulings from the World Trade Organisation, are likely to erode that protection from 2006. In a freer market, small Caribbean producers will struggle to compete.

Last year, Cuba shut down half its once-mighty sugar industry. In early September, Trinidad's state-owned sugar company made all of its 9,200 employees redundant. Though most are Indo-Trinidadians, and supporters of the island's truculent opposition party, there were no protests. The workers got redundancy pay totalling $115m, the offer of retraining, and the chance to continue growing cane as independent farmers in plots on the company's 77,000 acres (31,000 hectares).

Trinidad, booming on oil and gas, has plenty of new jobs. Jamaica's stagnant economy is another story. The government privatised its sugar factories in 1994, but agreed to take them back (for three American cents) four years later. Hit by floods and droughts, this year's sugar crop was a disaster. The 7,000 sugar workers and 8,000 cane farmers live far from other work. A shutdown might be greeted with riots. Barbados, prosperous and stable, has a different problem. Its neat canefields are far more attractive to tourists than the eroded scrubland of Antigua, which stopped growing sugar 30 years ago.

Some still have faith. Guyana's state-owned sugar firm plans 22,000 acres of new canefields. It signed a contract this month under which a Chinese firm will build a new sugar factory. Guyana already grows some “organic” sugar. Smart marketing could extract a higher premium for dark Muscovado and Demerara sugars. Agile producers still make a decent living. In Jamaica, Worthy Park, an aptly named private estate, squeezes a third more sugar than its neighbours from each ton of cane. It produced a sixth of this year's crop. Jamaica's government might take note.

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Canada's First Nations

Diamonds are for Dogribs

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An innovative land-rights treaty

CANADIANS have long been proud of their tolerance of cultural diversity. Now it is taking them down some innovative legal paths. On August 25th, Jean Chrétien journeyed to the remote village of Rae-Edzo, deep in the Northwest Territories, and signed an agreement bestowing self-government and mineral wealth on the 4,000 Dogrib Indians, who prefer to call themselves the Tlicho First Nation. “We lead the world in the recognition of aboriginal rights,” the prime minister said.

Indeed. The Tlicho treaty is only the second of its kind in Canada—the first, in 1998, involved the Nisga'a of north-west British Columbia—but more may now follow. Indian claims on much of British Columbia have cast doubt on who owns what and held up mining investment. The Tlicho accord clears up the doubts by granting full rights to the aboriginals. Eight other first nations may now reach similar agreements, though claims in urban areas, such as Vancouver, will be trickier to settle.

The Tlicho are fortunate that their ancestral land abuts a diamond industry of sparkling promise, which Canada's government wants to expand. Mines at Ekati and Diavik produce diamonds worth C$1 billion ($710m) per year; a third mine is due to start production in 2006. Canada is already the world's fourth-biggest diamond producer, with 12% of the market. The Tlicho will now gain 2% of the royalties from these three mines (most of the rest goes to the federal government). But they will get all the royalties from any new mines. Though most Canadian diamonds are sent abroad for processing, the Tlicho want to make Yellowknife a centre for cutting and polishing, and making jewellery.

Diamonds are not the end of the story. The treaty gives the Tlicho ownership of an area almost as big as Switzerland around Yellowknife, together with its natural resources. They will also get C$152m in cash over 15 years and a C$5m training fund. Companies owned by the Tlicho (which include an ore haulier, an electricity generator and a travel agent) will have preference in the award of contracts. Their local governments will be able to make and enforce laws, collect taxes, levy royalties on mines, and regulate land use, education, family law and traditional medicine. After many years in limbo under federal control, “We're now going to have some say in our lives,” said John Zoe, the Tlicho negotiator. Indian peoples elsewhere can only look on in envy. Unless they try to emulate the Tlicho.

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India

The enemies of promise

Aug 28th 2003 | DELHI
From The Economist print edition

AP

Another terrorist massacre in India has raised old questions about Pakistan and Hindu-Muslim relations

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THE co-ordinated terrorist onslaught on August 25th on Mumbai, India's commercial capital, was devastating. Two bombs, planted in taxis, exploded within minutes of each other at lunchtime, in parts of the city thronged with office-workers, shopkeepers, sightseers, hawkers and beggars. More than 50 people were killed. The longer-term consequences of this remain murky. At worst, the atrocity might spark a new round of communal blood-letting in India itself, and plunge India's thawing relations with Pakistan back into the icy depths.

The first signs were less discouraging on both fronts. Mumbai's citizens responded to the bombs with fortitude, and with more communal solidarity than antagonism. Within a day, the streets were crowded, the traffic jammed and the stockmarket, after a knee-jerk tumble, had staged an impressive rally. In Pakistan, meanwhile, both the foreign ministry and a leading Islamist party were quick to condemn the slaughter. India refrained from immediate finger-pointing. Talks in Islamabad on resuming air links—severed after an earlier terrorist attack, on the parliament in Delhi in December 2001—went ahead as scheduled on August 27th.

However, India's deputy prime minister, L. K. Advani, a hardliner in the ruling, Hindu nationalist, Bharatiya Janata Party (BJP), was less restrained. He portrayed the bombings as part of “our neighbour's war of terrorism against us”, which, he said, was not limited to Kashmir. Some Muslims were outraged at such a provocative accusation made so prematurely, and without supporting evidence.

The police's prime suspects are affiliates of a banned Indian organisation, known as SIMI (Student Islamic Movement of India), and of Lashkar-e-Taiba, a Pakistan-based militant Islamist group, dedicated to the “liberation” of Indian-ruled Kashmir. The police link the attacks to five other bombings in Mumbai in the past eight months.

The driver of one of the latest bomb-carrying taxis survived, and so the police have some information about his passengers, the presumed culprits. But the timing of the latest bombings, and the absence of any claim of responsibility, have given rise to all manner of theories. It was noticed, for example, that they closely followed similar car bombings in Jakarta, Baghdad and the Caucasus. Lashkar has known al-Qaeda links—a senior al-Qaeda member was arrested at one of its houses in Pakistan—but India's counter-terrorist police are not blaming Osama bin Laden for this attack, except perhaps as a role model.

The bombing also preceded by two days a visit to Kashmir by the prime minister, Atal Behari Vajpayee, for a meeting of chief ministers from Indian states. It was meant to flaunt the region's new-found “stability”, but was greeted by a series of violent incidents before it opened.

Most strikingly, the Mumbai bombs went off just hours after reports that archaeologists had found some evidence of a tenth-century Hindu temple beneath the site of the 16th-century Babri mosque in the northern town of Ayodhya. The destruction of that mosque in December 1992, by Hindu fanatics, prompted some of India's worst communal violence. However, most observers think the bombing was too well planned to have been an instant response to this boost for Hindu nationalism's most cherished cause.

The police's initial theory is that it was planned by SIMI associates based in Sharjah and Dubai, and that Pakistan's intelligence service, the ISI, may have had a hand. Based partly on the interrogation of 21 people arrested in connection with the earlier bombings (and assuming that the latest bombs are a continuation of them), they blame a campaign of retribution for last year's anti-Muslim pogrom in the state of Gujarat. Up to 2,000 people were killed, and there is evidence of official connivance in the violence. Mumbai's terrorists' targets have been areas with large Gujarati populations.

The random slaughter of rich and poor, old and young, Muslim and Hindu is a cruel, haphazard way to exact revenge. But Mumbai's residents have seen it before. On March 12th 1993, 257 people were killed by ten co-ordinated bombs. India blamed the ISI, acting through Mumbai's leading Muslim gangster, Dawood Ibrahim, and other thugs. They were allegedly also taking reprisals for anti-Muslim communal rioting: the killing of more than 900 people in Mumbai following the destruction of the Ayodhya mosque the previous year.

The unfulfilled mission of the destroyers—to build a temple on the site they say marks the birthplace of Ram, a model king and incarnate deity—has haunted Indian politics ever since, poisoning communal relations between Hindus and the Muslim minority. Even the Gujarat violence was related to it: it followed the burning to death of several dozen Hindu activists on a train from Ayodhya.

The archaeologists' report was ordered by the court hearing an ownership dispute—which has been under way since 1949—about the site in Ayodhya. The reaction of interested parties quickly showed it would do little to end the argument. Muslim groups denied it showed evidence of a temple. But the findings will strengthen those voices in the BJP arguing that the government should legislate for the construction of a temple, and that this should become part of its campaign for next year's general elections.

By the same token, with important state as well as national elections looming, some Indian politicians—such as Mr Advani—may think Pakistan-bashing is a vote-winner. He has already reverted to India's claim (which Pakistan denies) that 19 known terrorists, including Dawood Ibrahim and other alleged perpetrators of the 1993 bombings, are living in Pakistan under ISI patronage. He argues that, until they are handed over, Pakistan's condolences over this week's bloodshed cannot be taken as sincere.

Tension with Pakistan may suit some Indian politicians. But many analysts believe the ISI, too, has an institutional interest of it own in thwarting reconciliation with India. On both sides of the border, the rapprochement of the past few months has been broadly welcomed. But it may not be as resilient as Mumbai's business-as-usual signs.

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Indian elections

Uttar chaos

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Political turmoil in India's largest state

AFP

Mayawati, party animal

IT WAS never a love-match and they made an unlikely couple. Mayawati, chief minister until this week of the Indian state of Uttar Pradesh, is a Dalit, a member of the group once known as “untouchable” that languishes beneath the caste system. Yet her Bahujan Samaj Party (BSP) had cohabited for 15 months in coalition with the Bharatiya Janata Party (BJP), the Hindu nationalists who head the central government and derive their core support from middle-class, higher-caste Hindus. Their divorce on August 25th, bringing the collapse of the state government, will have repercussions far beyond India's largest state.

Miss Mayawati's only discernible policy has been the promotion of Dalit interests. It is the source of her political strength, giving her an apparently unbreakable “vote bank” of nearly a quarter of the state electorate. This has enabled her to ride out a succession of scandals: a lavish birthday party for which she dipped into government funds; videos showing her, in effect, soliciting bribes; alleged corruption in a project—since stopped—to build a shopping mall next to the Taj Mahal.

The BJP's failure to stop an investigation into the Taj Mahal projects seems to have led Miss Mayawati to call the whole thing off. State-level BJP leaders heaved sighs of relief. The alliance was alienating their own supporters, and was sustained only in the interests of the national party: the BSP has useful voters in other states, like neighbouring Madhya Pradesh, and in Delhi.

The BJP needs to prevent Miss Mayawati from joining forces with the main national opposition party, Congress. The BJP hopes to regain control of four Congress-ruled states, in elections this November. The BSP's seats may also be crucial in the national coalition arithmetic after next year's general elections.

So the loss of the BSP alliance is a blow to the BJP. But things could be worse. The likely outcome is a new coalition government led by the largest single party, Samajwadi, which draws its support from lower-caste Hindus and Muslims. Congress has lent its support to this plan. But Miss Mayawati is well-known for holding a grudge and will not be best pleased.

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North Korea

All together now

Aug 28th 2003 | BEIJING
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The talking starts, but for how long?

Reuters

Diplomacy's critical mass tries to defuse a bomb

CHINA bravely tried to inject some bonhomie into talks this week in Beijing on North Korea's nuclear-weapons programme, the first to involve North Korea, America and all of North Korea's neighbours, and probably the last chance to resolve the crisis diplomatically. In front of cameras, China's deputy foreign minister, Wang Yi, got all six of the chief negotiators to place their hands into a single pile, like members of a sports team, before they headed into talks over a specially-designed hexagonal table. That is as co-operative as they are likely to get, at least until—if optimists prove right—weeks or months of wrangling eventually produce agreement.

As *The Economist* went to press, the second day of the scheduled three days of discussions was under way, with no sign that either the Americans or North Koreans had softened their positions. The most promising development was a half hour or so of bilateral talks between America's James Kelly and his North Korean counterpart, a deputy foreign minister, Kim Yong Il. This came after the six countries, which also include Russia, South Korea and Japan, had spent the day delivering their opening statements on August 27th. It was the first such contact between the two countries since April, when they met in Beijing for talks with China about the crisis. Those talks quickly collapsed after North Korea asserted privately that it already had nuclear weapons.

The new six-party format is the product of unusually hectic diplomacy by China. It has belatedly realised the danger of a bloody conflict on its doorstep, or at least the risk of a nuclear arms race in the region that could draw in Japan, South Korea and even Taiwan.

China has reason to feel proud of having brought the parties together. North Korea wanted to talk only to the Americans, who insisted the discussions should involve all countries whose security was directly at stake. A Chinese official says North Korea was angry with China, the closest friend it has, though these days not a very chummy one, for failing to provide more opportunity at the April talks for direct contact with the Americans. The official says North Korea also criticised China for failing to give stronger backing to North Korea's position at the discussions. North Korea wants America to sign a non-aggression treaty before it will freeze its nuclear programme. The Americans want North Korea to stop its nuclear activities first, before a non-aggression pledge—not a formal treaty—is made or other benefits are given.

Diplomats say the best they hope for from this week's talks is an agreement to meet again. North Korea may be unhappy about being surrounded in the negotiating room by countries, including its supposed

friends, China and Russia, that are deeply worried about its behaviour. But it has a strong incentive to persist given the economic aid that might flow if agreement is reached. The Americans are likely to be more impatient, fearing that North Korea is simply buying time to develop a nuclear arsenal. A senior American negotiator with North Korea, Charles “Jack” Pritchard, who disagreed with hardliners in the Bush administration, resigned last week. But this is unlikely to make much, if any, difference to America's approach.

A further complication is Japan's grievance about Japanese abducted by North Korea to help train spies. North Korea allowed five of them to return to Japan last year after 25 years away from their home country, but their children have been kept in North Korea. A Japanese official involved in the talks said there would be no economic assistance from Japan unless this issue was resolved. He said Mr Kelly also called, during the talks, for the dispute to be settled. Japan and South Korea, however, are particularly fearful of conflict with North Korea and will try to keep the Americans talking as long as possible. Encouragingly for them, an American State Department spokesman called the talks “the beginning of a process”.

But even the publicly sanguine Chinese are beginning to think of worst-case scenarios. If North Korea cedes nothing at the talks and proceeds with its nuclear programme, the Chinese official says his country would not try to block any American effort to organise sanctions against North Korea through the United Nations Security Council, a move that North Korea has already said would be tantamount to a declaration of war. Some officials are also privately talking about the need for preparations by China's armed forces to cope with a possible tidal wave of refugees, were North Korea to collapse under economic or military pressure.

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Japan

Highways to hell

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A symbol of reform turns sour

Get article background

BUILDING roads is a costly business, particularly in Japan. Endless projects keep thousands of construction companies alive, while large donations to politicians in the ruling Liberal Democratic Party (LDP) ensure taxes keep flowing into new, mostly unprofitable, highways. This has led Japan's four state-road corporations at the centre of this chummy group to rack up some ¥40 trillion ($342 billion) of debts between them.

Privatising the road corporations by 2005 and stopping the waste is one of Junichiro Koizumi's core reforms, and one the prime minister is likely to stress in his re-election campaign (for his party's leadership election, due on September 20th, and in a probable general election later in the year). But, like many others, it has run into deep hostility from within his own party and from bureaucrats. An independent committee was set up by Mr Koizumi to lead the charge last year, but has made painfully little progress so far. For many people, the roads symbolise Mr Koizumi's hamstrung attempts at reform.

These days road reform is back in the spotlight, thanks to a scandal involving the Japan Highway Public Corporation (JH), the biggest of the road corporations. In June, JH said it had a capital surplus of ¥5.7 trillion. Shortly afterwards, a senior executive revealed a separate set of unofficial accounts, which showed a ¥617 billion capital deficit instead, with horrifying implications for the corporation.

Haruho Fukui, the president of JH, quickly denied such accounts existed. But several weeks later, JH “found” the secret accounts in a computer file in its accounting division, though these, it insisted, were drawn up by a handful of rank-and-file members, and were not seen by senior executives. An angry Mr Fukui demoted the whistle-blower. On August 22nd, JH said it was considering filing a criminal complaint against him as well.

Yet members of the privatisation committee, and other experts, continue to question JH's official figures. Not surprising perhaps, since it curiously counts interest payments on loans used to build new roads as assets. Mr Fukui also claimed the corporation did not have a full set of records to show how much it paid for earlier projects, though these too seem to have since turned up. Add to this a long list of unprofitable projects, such as a tunnel underneath Tokyo Bay, which loses some ¥100m a day. According to Kozo Ogata, head of the Japan Toll Road Research Centre, who worked at JH for 30 years, the entity has built highways that see so little traffic that they do not get enough tolls to cover the cost of collection.

Though under public pressure to fire Mr Fukui, both Mr Koizumi and Chikage Ogi, the construction minister, have stuck by him, raising doubts over their commitment to reform. True, Ms Ogi did promise to get a big accounting firm to audit JH's official accounts. Unfortunately, they all refused, so the corporation is making do with a less rigorous review instead.

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Vietnam

Caught in the net

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Dissent is still crushed

AP

Watch where you click

THERE is something schizophrenic about Vietnam's treatment of the tiny number of its citizens who dare to challenge its repressive communist regime. Some, such as Pham Hang Son, a 35-year-old marketing executive who has been in jail since last March on charges of espionage, receive lengthy prison terms for the mildest of offences. The government says he received e-mails and money from “reactionaries”, and in turn “distorted and smeared Vietnam to opportunists” using the internet. His wife says he did nothing more than translate an article on the principles of democracy into Vietnamese and post it on the web. Either way, five years in prison, plus three years of house arrest, seem excessive even by Vietnam's severe standards—and that sentence is a reduced one, following an appeal on August 26th. Mr Son was originally going to be locked up for 13 years.

On the other hand, Phan Van Khai, the prime minister, held a much publicised meeting earlier this year with Thich Huyen Quang, a dissident Buddhist monk who has been under house arrest for over 20 years. The government also granted an early release to Thich Quang Do, another monk under house arrest and the deputy leader of Mr Quang's Unified Buddhist Church of Vietnam (UBCV). It even allowed Mr Quang to travel from his monastery in central Vietnam to Mr Do's in the south, and to receive well-wishers along the route. For a regime that considers both men criminals, the UBCV illegal and spontaneous gatherings a cause for alarm, this was the height of forbearance.

So is the government tightening or loosening the screws on dissidents? That seems to depend on who they are. Critics fall into three broad categories: urban, political types; Catholic and Buddhist clergy; and minorities, both ethnic and religious, from the Central Highlands (a region of southern Vietnam, confusingly enough). In recent years, the clergy have fared best, as Messrs Quang and Do's experience shows. Although the government still controls religious training and clerical appointments, it has legalised some previously forbidden denominations, and invited unauthorised congregations to join the official flock. It also seems to acknowledge that religion can fulfil a useful social function, instead of insisting on the Communist Party as the be-all and end-all. Buddhist monks now run campaigns to raise awareness of AIDS, while Christian nuns do charity work—just the sort of activity that used to get groups like the UBCV into trouble.

The dissidents who have come in for the harshest treatment of late are urban intellectuals who use the internet to propagate their complaints. In addition to Mr Son, Le Chi Quang, another cybercritic, was sentenced to four years' imprisonment last year. At least two other dissidents have been arrested, red-moused, in internet cafés. Vietnamese ISPs block access to critical websites. And last October, the Ministry of Culture announced that it must vet in advance all material to be posted on Vietnamese websites, a move that undermined the Ministry of Telecommunications' subsequent decision to promote e-commerce.

On the whole, personal freedoms have increased enormously in Vietnam since the revolution's most totalitarian phase. People are free to observe the religion of their choice, to start a business, even to discuss corruption and the mechanics of administrative reform. But the authorities still do not permit any challenge to single-party rule, or any direct criticism of senior leaders, especially through such a powerful medium as the internet. Some hope that the legal reforms Vietnam promised to undertake when it signed a free-trade agreement with America in 2000 will bring about a more independent judiciary, and thus provide a little more protection from the government's displeasure. In the meantime, Vietnamese

would be wise not to debate the issue online.

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Afghanistan

Start the generator

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It's not just Iraq that has power problems

THE power went out in Kabul on August 24th. It will come back on sometime in December, with the first snowfall. Another failure of the international reconstruction effort? For once not really. The problem is water. There is not enough of it in the reservoirs banking the three hydro-electric dams that supply Kabul with power. Only by load-shedding can enough be kept back for peak use through the winter.

A single turbine out of four in the 110 MW Naghlu dam is turning out power for the presidential palace, ministries, hospitals and water-treatment plants. The smaller Mahi Par and Sorobi dams kick in a little more to light up Kabul at night. From 5AM to 7PM, however, the city of 3m souls is without power.

Not that most “internationals” notice. Their compounds, along with those of wealthier Afghans, constitute the emergent generator-class—rich enough to cool (or heat) their offices and homes with big diesel-powered generators. A lesser generator-class, including butchers and foreign correspondents, gets by with occasional use of spluttering lawnmower-sized generators. But for the three-quarters of Kabul too poor to afford to run either kind, the coming five-month power cut means less business, less construction, and a gloomier and hotter (or colder) time of it.

There will be political consequences. The poor are not interested in explanations of drought. To them the power problems look like failure on the part of Hamid Karzai's government. The apparent nonchalance of the American-led coalition and the UN does not help. They have done little to prepare Kabul for another season without electricity. A capital without power is not a happy platform from which to prepare for next year's elections.

It will take years for the reservoirs to fill, says Ghulam Rabbani, the director of planning in the Ministry of Power. With a bit of foresight and some drive, he thinks, donors could already have begun work on a power line from Uzbekistan supplying Kabul at two cents per kilowatt, about what the dams cost. It will take ten years and $110m to build a more efficient dam. And even so, it will depend on decent snowfalls, something even nation-builders cannot guarantee.

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Rwanda's presidential election

Kagame won, a little too well

Aug 28th 2003 | KIGALI
From The Economist print edition

AP

Nine years after the genocide, Paul Kagame has much to his credit. But not, unfortunately, allowing true democracy

Get article background

ON THE eve of polling day, Rwanda's main opposition candidate was in despair. Sitting on the balcony of the tiny flat that served as his campaign headquarters, Faustin Twagiramungu admitted that he had no chance of winning the presidency. His party had been banned, his campaign leaflets seized, and his supporters were terrified. As he spoke, some of his provincial campaign managers, all 12 of whom had been arrested the previous day, were paraded on television, denouncing their former leader. Mr Twagiramungu pulled out a letter, which he said was from one of them. The message, he said, was “I'm so sorry, but I have to stay alive.”

Rwanda's first multiparty presidential election on August 25th was efficiently run, as efficiently, indeed, as the country has been run since the genocide nine years ago. But it was far from free or fair. The winner was Paul Kagame, the Tutsi rebel who seized power in 1994 and has called the shots ever since. He won 95% of the vote. Mr Twagiramungu managed 3.7%.

Before criticising Mr Kagame or his party, the Rwandan Patriotic Front (RPF), one must allow for the unbelievably awful circumstances in which they came to power. They overthrew a regime that was trying to eliminate an entire ethnic group, the Tutsis. Some 800,000 people died during the genocide, mostly Tutsis, but also Hutus who refused to take part. Mr Kagame's army of Tutsi exiles stopped the slaughter and set about rebuilding their totally shattered country.

It was a seemingly impossible task. A tenth of the population had been hacked or clubbed to death. More than a quarter had fled their homes. The country was a smoking graveyard, whose citizens mostly regarded their new rulers with fear and suspicion. Most Rwandans are Hutus, tens of thousands of whom actively participated in the genocide, and hundreds of thousands of whom were complicit in it. The RPF's position in 1994 was like that of a small army of Jews, whose leaders barely spoke German, occupying post-war Germany in 1945.

Understandably, their priority was survival. Their methods were harsh. During the war against the *génocidaires* in Rwanda, they killed between 25,000 and 45,000 people. When the surviving *génocidaires* regrouped in Congo and launched attacks on Rwanda, the Rwandan army invaded its neighbour, twice.

With its local allies, it killed perhaps 200,000 refugees, and stripped a huge swathe of eastern Congo of everything worth stealing.

Donors, who supply Rwanda with more than half of its budget, have turned a blind eye to the regime's atrocities. This is partly out of sympathy for its security concerns, though this is fading, and partly because it has done such a good job of nation-building at home.

Peace and sound macroeconomic policies have attracted a flood of aid and foreign investment. Donors and businesspeople alike have found RPF ministers straightforward to deal with, because they typically say what they mean, and do what they say they will. Growth has been rapid, reaching 9.9% last year. Although Rwanda is still poor, things seem to work. The roads in Kigali are good; the police almost never demand bribes.

Vigorous efforts have been made to heal the wounds of the past. All reference to ethnicity has been expunged from public life. Students and army recruits are obliged to spend two months at a *camp de solidarité*, where they are taught that there are no Hutus or Tutsis, only Rwandans. The government has struggled to deal fairly with more than 100,000 genocide suspects, most of whom are still crammed into its awful jails. And it has been generous in helping Hutus, who desert the genocidal militias in Congo, to come home and become civilians again.

Ethnic divisions overcome?

This week's election was proof, say Mr Kagame's supporters, that Rwandans are reconciling: the vast majority of Hutus voted for a Tutsi. Yes, retort critics, but Mr Kagame had a few unfair advantages. While Mr Twagiramungu had to campaign as an independent because his party was banned, the RPF recruited legions of new members with promises of patronage if they joined, and trouble if they did not. The state-owned media relentlessly praised Mr Kagame, and made alarming accusations about his opponent. And while Mr Kagame flew from rally to rally in his presidential helicopter, Mr Twagiramungu could do little more than hand out his business cards. At least, he joked, the cards were easy to swallow if his supporters were caught with one in their hands.

In Mr Twagiramungu's home town, soldiers reportedly looked at ballot papers and ordered those who voted the wrong way to try again. This may have been an isolated incident. For the most part, individuals' votes were secret, but the authorities would certainly know how small areas voted, and collective punishments are not unheard of in Rwanda.

Had Mr Kagame lost, he insists that he would have surrendered power. But he left little to chance. An election can be annulled if the winner campaigned on an ethnically “divisionist” platform. “Divisionism” is broadly defined. The excuse for harassing Mr Twagiramungu was that he is a divisionist: an odd charge to level at a man who lost 32 relatives in the genocide. The *génocidaires* would probably have killed him, too, had he not escaped abroad in a rolled-up tarpaulin.

Safer to keep mum

Rwanda has a history of authoritarianism. Local officials have long had boundless coercive power over ordinary people, and have been held accountable only upwards, to the central government. Under the RPF, things are more relaxed, but people are still submissive. One group of peasants, interviewed by the side of a road, refused to express any opinions about the government. Then, after a few minutes, two policemen drove up, demanded to know what was going on, and suggested that your correspondent redirect his inquiries to the Bureau of Elections.

The RPF dominates all the levers of power: the security services, the bureaucracy, the judiciary, banks, universities and state-owned companies. Its members find it easier than non-members to win government contracts and licences. Those outside the circle often feel bitter.

One Hutu said he spent eight years in jail before being found innocent of abetting the genocide. Someone lost his case file, he said, perhaps because “those who came from abroad” wanted his plum government job. He was made to attend a *camp de solidarité*, which he thought was designed to drum into him the RPF's ideology and view of history. But he did not dare complain. “I've seen men beaten to death in prison,” he said, “I don't want to go back.”

Even those who regard Mr Kagame as their protector sometimes find the atmosphere in Rwanda oppressive. “There's no freedom of speech,” complained one RPF-supporting student. But he cheered, along with thousands of others, when Mr Kagame arrived at his victory rally, waving from the top of an armoured car.

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Iraq and its Turkomen

No Kurdish imperialism for us

Aug 28th 2003 | TUZ KHURMATU
From The Economist print edition

Ethnic rivalry in Iraq's relatively peaceful north

OUTSIDE the mayor's office in Tuz Khurmatu stands a newly erected mural of three men in the traditional dress of the northern Iraqi town's main ethnic groups—Arab, Kurdish, and Turkomen—side by side in an embrace of brotherhood. The Kurd, in the middle, stands slightly taller than the others. Many Turkomen are unhappy with this arrangement.

On August 22nd, the embrace faltered: the town witnessed clashes that left five Turkomen and three Kurds dead. The violence erupted after somebody destroyed the shrine of Imam Ali Zein al-Abdin—a small dome on the hills venerated by the town's predominantly Shia Turkomen population—with explosives, or possibly a rocket-propelled grenade.

EPA

Don't mess with this Turkomen woman

This is the second time that the shrine has been destroyed. It had been levelled by Saddam Hussein's army in the mid-1990s so that an outpost could be built on the site, and was rebuilt after the war with money from Shia donors. But the morning after the shrine's inaugural ceremony, Tuz Khurmatu's Turkomen awoke to see only a smudge of lime-green rubble on the barren hilltop where the dome should have been. Outraged Shia faithful flocked to the town's main mosque to demonstrate.

The protest's escalation into gunfire appears to be another function of Tuz Khurmatu's post-war urban geography. The town was liberated from the Saddam regime by Kurdish *peshmerga* fighters. As elsewhere in Iraq, the Kurdish parties seized former offices of the Baath and the security services as their headquarters. In Tuz Khurmatu, these offices happened to be located in a largely Turkomen part of town, and were natural flashpoints. Turkomen say shots were fired from Kurdish party offices at peaceful demonstrators; Kurds say that Turkomen mobs began hunting down Kurds in the street. The American forces in the town—who themselves shot three gunmen while trying to restore order—say that trying to determine who shot whom first is hopeless.

The clashes briefly spread to the nearby oil production centre of Kirkuk, where three Turkomen were killed during a protest. But, since then, the violence has died down. Both ethnic groups have said that they will pay compensation for the dead and wounded, and both will contribute funds for the shrine to be rebuilt. The Americans have promised that the perpetrators of the mosque demolition, suspected to be either Kurdish bigots or Baathist *provocateurs*, will be brought to justice.

However, Turkomen continue to grumble about the post-war “Kurdicisation” of their town. The Kurdish mayor, a former activist in the Patriotic Union of Kurdistan, says he is one of the hundreds of Tuz Khurmatu natives driven from the area by Saddam Hussein who have returned after the war. Turkomen nationalists say that the returnees are outsiders, brought in to colonise a strategic outpost close to northern Iraq's oilfields.

Turkomen nationalists fear that Tuz Khurmatu, which the Baath regime placed in a predominantly Sunni province, will be attached to the Kurdish north in a future federal Iraq. A member of the Turkomen Front of Iraq points angrily at the red, white and green Kurdish flag painted on the hillside some distance from the remnants of the Imam Ali shrine. “This is not Kurdistan,” he declares.

Throughout the north, Turkomen nationalists say that they are being short-shrifted by the Americans

working in partnership with their Kurdish wartime allies, and denied their proper representation in Iraq's new interim local governments. The predominantly Sunni Turkomen of Kirkuk complain of abuse at the hands of *peshmerga* in the police.

The Americans do not deny that they have had a special relationship with the Kurds. The *peshmerga* liberated Kirkuk—and are reported to have taken part in the wave of post-war looting. But, since then, the Kurdish parties have been credited by the Americans with helping to keep order in what is now one of Iraq's more secure cities. Now, however, America says that it is trying to prise the Kurds out of their security role, and to institute a government in which the town's four ethnic-confessional groups (Kurds, Turkomen, Arabs, and Christians) are equally represented.

Each group, they say, continues to complain that it is not represented according to its demographic weight—but no one actually knows what the numbers are. Turkomen and Kurds both claim to be the majority group in Tuz Khurmatu. Turkomen nationalists claim they number 3m across the north; a more common estimate is between 400,000 and 500,000.

Turkey considers itself the Turkomen's protector, and the Turkish press is quick to pick up on allegations of persecution suffered by their co-linguists, particularly if they come at Kurdish hands. After the war, the Turkish government promised to send troops to protect the Turkomen, and Turkomen parties have been announcing that the time for such intervention has come.

The Kurds, meanwhile, claim that the Turks are deliberately stirring the pot, and recall the dubious presence of Turkish special forces in the area in July. American troops, for their part, point out the bright side: with everyone in town competing for the occupying power's patronage, there are fewer people taking shots at them.

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Iraq's Shias

Whodunnit in the hawza

Aug 28th 2003
From The Economist print edition

The attempted assassination of a Shia prelate

IT WAS not a big explosion, compared with the bloodier blasts that recently wrecked the Jordanian embassy and the UN offices in Baghdad. But the bomb that targeted a top cleric in the Shia holy city of Najaf on August 24th, killing three of his guards, represented another abrupt widening of the cycle of violence engulfing Iraq.

The culprits and the motives behind all three attacks remain mysterious, as does the linkage between them. But the overall message is clear. Iraq's many-headed “resistance” is out to punish anyone seeking to stabilise Iraq, either by working with the coalition forces, or simply by declaring that these forces are needed, if only for the time being.

The intended victim of the latest attack, Muhammad Said al-Hakim, falls into the latter category. He is one of four senior ayatollahs who lead the *hawza*, or seminary, in Najaf, which is rivalled only by Iran's Qom as a centre of Shia jurisprudence. Ranking second to Ayatollah Ali al-Sistani, Mr Hakim is doubly respected for having survived eight years in Saddam Hussein's prisons, and having lost 17 close relatives to his executioners. His word, in the eyes of devout followers, is tantamount to law.

Since the invasion of Iraq, both he and Mr Sistani have counselled patience and tolerance, often in the face of sniping from younger, hotter heads inside the *hawza*. So far the elders have prevailed, helping to secure relative calm across the Shia-dominated south of the country. Internal tensions have grown, however, driven partly by the rabble-rousing of Muqtada al-Sadr, the 30-year-old scion of a clerical family who has preached—but so far not practised—armed action against the occupation as a prelude to Islamist revolution.

Some Shias have blamed Mr Sadr for a spate of attacks against rival clerics, despite his heated denials. Others see the hand of hardliners connected to Iran's shadowy intelligence services, whose aim is not only to bleed the American occupiers by fomenting chaos, but also to eliminate clerics, such as Mr Hakim, who challenge the validity of Iranian-style theocracy. Iraq's porous borders have allowed thousands of Iranian pilgrims easy access to Najaf, adding to widespread suspicions in the city.

A more popular theory is that non-Shia actors are to blame, whether they are Baathist agents or Sunni Muslim extremists, possibly tied to international terrorist groups. If this is the case, the attack on the ayatollah would seem to be part of a calculated, systematic strategy to render the country ungovernable.

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Iraq and the United Nations

We won't be sacrificial lambs

Aug 28th 2003 | AMMAN
From The Economist print edition

The UN, and other agencies, are moving out of Iraq, and are in no hurry to return

Get article background

"IF WE have staff under a lot of restrictions which prevent them carrying out their jobs, it's prudent to have them out of the country," says Mark Malloch Brown, the head of the United Nations Development Programme (UNDP), now in Amman, where the UN has evacuated nearly two-thirds of its 600 non-Iraqi staff. Since the attack on August 19th on the UN headquarters in Baghdad, foreign aid workers of all descriptions have fled Iraq, and many of them are now in Jordan.

AP

First in, last out, usually

The war-hardened International Committee of the Red Cross, known in the aid world as first in, last out, has cut its international staff by two-thirds, citing specific threats of attack. Oxfam, a British-based charity, has pulled its foreign staff out of Iraq, as has the Dutch arm of Médecins Sans Frontières and the Swedish Rescue Service Agency. Both Solidarité, a French NGO, and Mercy Corps, an American one, have come under attack. And those UN and NGO workers who remain in Iraq are now restricting their movements as much as they can, retreating into unmarked homes and cars, and cutting their contacts with most Iraqis.

American officials, desperate to prevent further erosion of confidence, tend to suspect ulterior motives. What investor would go where the Red Cross fears to tread? Why, the Americans ask, are the same aid workers who braved the bullets in Chechnya now turning their backs on efforts to get Iraq back on its feet? A response this week, both from UN officials, and from Ayatollah Ali al-Sistani, the senior Shia cleric, blames the occupying powers for bringing chaos.

The perception that foreigners, soldiers and civilians alike, are considered fair game by the anti-American resistance is taking its toll. The long promised opening of Baghdad International Airport to commercial flights is on hold. Basra, which was suggested as an alternative and was due to open this week, has postponed flights for a month. A UN security report classifies the exits by road from Baghdad, whether west to Jordan or south to Basra, as no-go areas. And insurance has become prohibitive: a Canadian aid agency quotes full insurance for one person for one month at $4,500 for Afghanistan and $6,000 for Iraq.

Few expect security to improve. The attack on the UN, and its flight from Iraq, coincided with a call from the International Crisis Group that the UN be given a central role in Iraqi decision-making. "The chances of success in Iraq will be greatly enhanced by giving the UN genuine authority over the political transition process," concluded the ICG's report on governing Iraq released this week. The UN, it said, was "the

missing ingredient”.

Faced with the rising costs of occupation, the Americans are looking for ways to share the burden. The State Department this week touted the possibility of a multinational force under UN leadership, so long as its commander was an American.

But the UN is now talking of trimming not just its staff, but also its responsibilities. UN staff, tending their wounds in Amman's five-star hotels, no longer want to be sacrificial lambs helping to stabilise America's project in Iraq. Senior UN officials say that humanitarian staff levels may eventually return to between a half and a third of what they were before August 19th. But in the meantime UN staff have been given a mandatory 14-day leave, reducing UN operations to a minimum. “There's a mutiny among UN staff,” says an insider. “They're threatening to resign if they're not posted elsewhere.”

Even before the attack, the UN's humanitarian assistance was due to wind down, with the seven-year oil-for-food programme expiring at the end of the year. Paul Bremer, Iraq's American administrator, said this week that its economic needs would run into tens of billions of dollars. But the UN has already scaled down its spending plans for the conference of donors, to be held in Madrid on October 24th. This will look at grants of “billions, not tens of billions” says the UNDP, and will concentrate on rehabilitation of existing infrastructure.

Before committing more people to Iraq, the UN wants its own blue-helmet protection. Even more important, UN officials, bitter about the loose wording of previous Security Council resolutions, are seeking a specific mandate for their organisation. They are also asking for a clear timetable for the restoration of Iraqi sovereignty.

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Iran's nuclear power

Version two, or three

Aug 28th 2003
From The Economist print edition

Iran adjusts its nuclear story a bit

HAS Iran enriched uranium as part of a clandestine effort to build a nuclear bomb? When inspectors from the International Atomic Energy Agency (IAEA) visited a previously undeclared enrichment plant at Natanz earlier this year, they came away worried by the sophistication of its centrifuge machines. In June they told the agency's board of Iran's failure to report a series of nuclear-related activities that should have been declared under its existing safeguards agreement. Since then, swipes taken at Natanz have shown traces of two types of uranium enriched to 20% or more—a by-product of a weapons effort, not the peaceful power programme (which needs enrichment to no more than 3%) that Iran insists is the limit of its nuclear ambition.

Caught red-handed? On September 8th, the IAEA's board will hear that it is still too early to tell. But Iran has been forced to change its story to account for the tell-tale traces of uranium. It first claimed it had had no outside help. Now it says the errant uranium arrived on imported equipment. In the past China supplied Iran with natural uranium, and the plans for a conversion plant to produce uranium gas for its centrifuges (and Iran has now owned up to past conversion experiments that should have been reported). But Pakistan is the likeliest source for the enrichment technology. Iran, however, insists it bought it from “intermediaries”. The IAEA will be checking.

There are other discrepancies. Iran claims that it built its enrichment plant at Natanz without any previous experiments to see if its centrifuge designs worked, and that it has done no enrichment anywhere else (Natanz is not yet fully working). That strikes centrifuge experts as implausible, and heightens suspicion that other nuclear work is under way somewhere. Results from other samples will not be ready until the November IAEA board meeting.

Meanwhile, Iran says that other suspect experiments to produce uranium metal are part of its plans for a heavy-water research reactor. But the metal is used in bomb-building, and such reactors produce lots of bomb-useable plutonium too. Iran's civilian power plans anyway call for more light-water reactors, like the one the Russians are building at Bushehr.

America has long seen Bushehr as cover for nuclear co-operation of a dodgier sort. The Russians deny that and say they will manage all the fuel from Bushehr too, to prevent extraction of plutonium from the spent fuel-rods. But Iran says it will eventually make its own fuel, thank you.

Still insisting that its nuclear drive is peaceful, Iran is talking of eventually signing a more intrusive safeguards agreement with the IAEA. That is no longer so reassuring. Unless its gives up its enrichment plans, Iran will soon have all the nuclear skills, and eventually enough uranium and plutonium, to turn nuclear at speed.

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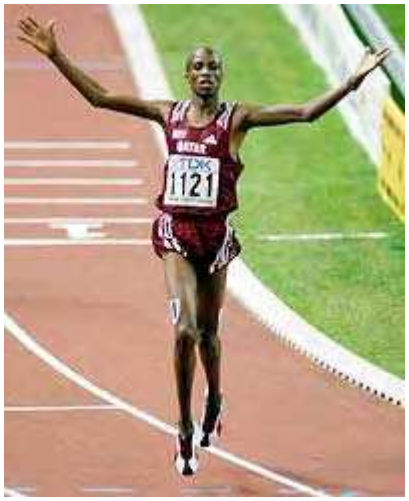
Athletic mercenaries

The brawn drain from Africa

Aug 28th 2003
From The Economist print edition

Qatar's poaching of African champions

EPA



Exceedingly successful economic migrant

AS USUAL, the world steeplechase champion is a Kenyan. But his passport says he is from Qatar. Saif Saeed Shaheen, who until this month was called Stephen Cherono, was bought by the rich little Gulf state for $1,000 a month for life, and a new track for his home town in Kenya. Another ex-Kenyan runner, now called Abdullah Ahmad Hassan, who came fourth in the 10,000 metres at the current World Athletics Championships in Paris, was also part of the package.

Qatar, with little home-grown sporting talent, has acquired world-class athletes this way before. In 1992, it poached a few Somalis for its track team and got an Olympic bronze medal. For Sydney in 2000, it imported a whole squad of weightlifters from Bulgaria and won bronze again. Another Qatari steeplechaser, Khamis Abdullah Saifeldin, originally from Sudan, but clearly a patriot already, says that “Qatar is the best in the world in spending money on sport.”

Buying talented sportsmen, common enough at club level, is burgeoning in international sport. In March, for example, landlocked Switzerland beat New Zealand to the America's Cup, sailing's most prestigious prize, by hiring a crew of New Zealanders. Since the 1980s, European sports federations have been attracting African athletes and footballers, and obtaining passports for them.

But sport is war by other means, and changing allegiance is sometimes considered high treason. Merlene Ottey, the sprint legend who won eight Olympic medals for Jamaica before defecting to Slovenia last year, is not much liked in her native country. And athletics' world governing body, worried about the brawn drain from Africa, is now thinking of changing its citizenship rules.

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German reform and democracy

The exhausting grind of consensus

Aug 28th 2003 | BERLIN
From The Economist print edition

In his push for economic reforms, Gerhard Schröder is changing the way German democracy works

A MUCH heralded commission chaired by Bert Rürup, one of the few top German economists who get their hands dirty in politics, has at last told Germany's Social Democratic-led government how to reform the country's creaking public-pensions system. In the commission's view, pension contributions should be capped (at 22% of monthly gross salary), despite an ageing population. More strikingly, Mr Rürup's commissioners want to raise the legal retirement age to 67 from today's 65, adding a month a year between 2011 and 2035. They have also proposed a new formula to calculate pensions, which would take into account the age composition of the population. Most painfully, Germans would have smaller incomes to retire on: 40% of average gross earnings instead of the current 48%.

These suggestions are milder than the minimal changes that more radical economists say are needed to put public pensions on a stable footing. But they are probably the most ambitious that Chancellor Gerhard Schröder has any hope of implementing. Even so, they have provoked a barrage of criticism and counter-proposals, in particular from his own ruling Social Democrats. And there may be further feverish negotiation before parts of the proposed reform are enacted in the Bundesrat, Germany's upper house of parliament, where the Christian Democrat-led opposition has a majority.

Whether or not Mr Rürup's plans are implemented, his commission shows how German democracy has changed in recent years—and illustrates Mr Schröder's approach to reform. The members of the Bundestag, the lower house of parliament, are supposed to “represent the whole people”, according to Germany's Basic Law, its constitution. But German politics is increasingly being conducted in councils, at round tables and by groups composed of academics, politicians, businessmen, lobbyists and ordinary citizens that seek to further reform while preserving Germany's post-war system of consensus.

The proliferation of such groups is due largely to Mr Schröder and his left-of-centre cabinet, who have created more of them than any other German government. New participants, alongside Mr Rürup's commission, include the National Ethics Council, the Commission for the Reform of Municipal Finances, the Council for Sustainable Development, and the Expert Commission on Corporate Governance. This commissionitis is now so pervasive that Hans-Jürgen Papier, head of the Constitutional Court, recently warned Germans of a rampant “deparliamentisation”. If parliament ceases to be the hub of politics, he said earlier this year, citizens will lose their sense of representation and elections will be devalued.

Yet Mr Schröder's seeming fondness for commissions is not due to a contempt for parliament. Rather, suggests Frank-Walter Steinmeier, who runs the chancellor's office, it is because the many checks and balances of Germany's consensual system mean that decisions cannot be taken quickly enough to match the break-neck speed of change wrought by globalisation and new technology. Commissions, Mr Steinmeier wrote in a candid article in 2001, are a way of breaking Germany's systemic gridlock.

At first this approach looked promising. For instance, after long negotiations a “nuclear consensus” was reached in June 2000, when a committee drawn from industry and government agreed to close down all Germany's nuclear plants within 32 years of operation. And then there was the commission chaired by Peter Hartz, the Volkswagen personnel director, which put forward a raft of proposals last summer to loosen the country's sticky labour market. Most of his ideas have been speedily implemented—albeit so far with mixed success.

Wait for the backsliding

But as the knife cuts closer to the fiscal bone, even hand-picked commissions are finding it hard to reach a consensus—and then the government is more often inclined to ignore their proposals. When, for instance, Mr Rürup's commission tried to come up with a separate blueprint for health-care reform earlier this year, it almost broke apart. Of its earlier more radical proposals, almost none has been included in the package which the government and opposition have finally agreed on. One of the few tough measures pushed through is that people with mandatory health insurance will, from 2005, have to take out an additional policy for dentures. But that is hardly the “once-in-a-century” reform that was promised.

Given the high-pitched tone of the pension debate, the Rürup commission's latest reform plans could yet be drastically watered down. This is largely because the ruling Social Democrats are in disarray. Some have called for a freeze on pensions; others have expressed outrage at such an idea. The opposition Christian Democrats are likely to be just as divided. Only the Greens and the Free Democrats, Germany's liberals, have been at all consistent, not least because they don't have powerful constituencies to worry about.

So are Germany's attempts to reach what Mr Steinmeier calls “an innovative consensus” as the best way towards reform failing? It is too soon to say, though recent experience is not encouraging. Certainly the legislative process needs straightening out. Most Germans seem to agree that there is too much of a muddling overlap between the *Länder* (Germany's 16 states) and the federal government in Berlin. Only a couple of days before Mr Rürup presented his proposals, both Social and Christian Democrats agreed to create yet another committee of experts—on constitutional reform.

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Italian pensions

Keep on working, please

Aug 28th 2003 | ROME
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Silvio Berlusconi thinks about retirement (but not his own)

A SPRIGHTLY 66, Silvio Berlusconi, Italy's prime minister, believes that his fellow Italians should follow his example. They should work longer, he suggests, and retire from work five years later than they presently do. Not that Mr Berlusconi, who turns 67 in a few weeks, wants Italians to copy him to the last digit. He would settle for a retirement age of 62 for them.

Although Italian men must wait until 65 before they officially qualify for an old-age pension from the state, those who have got 35 years of contributions under their belts can retire and draw state pensions when they are 57. Many do, and this lies behind the state scheme's financing crisis. Despite clawing 40% of gross earnings in social-security contributions from employers and employees' pay-packets, the scheme by no means covers expenditure.

Spending on state pensions already gobbles up over 15% of GDP, a figure certain to rise as Italy's awkward demographics of low birth rate and increasing longevity push the scheme even further out of financial balance. Mr Berlusconi is not alone in thinking that something must be done. Antonio Fazio, the governor of Italy's central bank, has been banging the pensions-reform drum for several years. There is a structural imbalance between benefits and contributions, and the system is unsustainable, he says. Whether they like it or not, Italians should retire later.

Is Mr Berlusconi the man to persuade them? Before Italy took over the EU's six-month presidency in July, he hoped to convince other leaders to adopt a Europe-wide solution. That now seems unlikely to come about, so Mr Berlusconi will be unable to enforce his proposal, then pin the blame on Brussels. Moreover, two parties in his right-wing coalition, the Northern League and the National Alliance, fearful of offending their supporters, have expressed reservations about Mr Berlusconi's pensions-reform ideas. In Italy, such notions don't win votes.

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French holiday habits

C'était la vie, but not these days

Aug 28th 2003 | PAPEETE, TAHITI
From The Economist print edition

August isn't what it used be. Blame electronics

THE traditional mass exodus from France's big towns in August ends in an almost as traditional mass killing on the roads this weekend, as the entire nation—it seems—tries to drive home on the same day in time for the start of work again on September 1st. But less traditionally, an increasing number of political and business leaders are wondering whether they really got away on holiday at all.

Not that they didn't get away, as most of France still does; some companies force their staff to take much of the month as holiday whether they like it or not. But was it really on holiday? The elite can no longer enjoy the summer in the same carefree spirit as their parents did. A virus has entered their lives: electronics.

It comes in two shapes: the mobile phone, *le portable*, and the laptop. What it lives on is *mondialisation*—the globalisation of politics and business. Worldwide, there are these inconvenient people, unaware of the benefits of France's civilised month of rest, who insist on staying at their desks—or putting bombs under those of other people who have done so. Worse, ever more such people are to be found even in France. So the boss has to stay in touch even from the beach. The technology enables him do it; other people push him and expect him to do it.

Big corporate happenings these days seem to arise just as the nation is supposed to enjoy its month of rest. This summer the government had to bail out an ailing engineering group, Alstom, while France's aluminium champion, Péchiney, was hit by a hostile bid from a Canadian rival, Alcan.

Nor does politics stop, as it ought to. One boss who forgot to keep in touch, the health minister, Jean-François Mattei, is fighting for his political life due to his failure to save thousands of old people from succumbing to the heatwave. The interior minister, Nicolas Sarkozy, had to settle a dispute between farmers and party-goers over the location of the annual Teknival rave festival. The foreign minister, Dominique de Villepin, had to slave away at France's response to the planned settlement of the row over Libya's bombing of an American plane over Lockerbie. And President Jacques Chirac, holidaying in Quebec, found he had to issue a statement of regret over the murder of a French actress—then had to face complaints for not doing the same about the heatwave.

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Albania

Power struggle

Aug 28th 2003 | TIRANA
From The Economist print edition

The better, younger generation is determined to oust the crustier one

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LIKE scorpions in a bottle, Albania's two cleverest politicians are circling each other in search of an opportunity to deliver a fatal sting. For the moment at least, Fatos Nano, the prime minister and leader of the (ex-communist) Socialist Party is on the defensive. His younger and more dynamic rival, Ilir Meta, resigned from the foreign minister's job in July, accusing the prime minister of cronyism and interfering with foreign policy, but he has managed ever since to block the appointment of a successor. The power struggle is likely to be resolved this autumn. The outcome could determine whether Albania falls back into stagnation and corruption or moves ahead more energetically.

Mr Meta persuaded a group of MPs from the governing Socialist-led coalition to vote against or abstain from approving the candidacy of Marko Bello, a close ally of Mr Nano. With parliament on holiday, Mr Nano has been able to manage without a foreign minister for a while; after all, the European Commission, which keeps the closest tabs on Tirana, more or less shuts down for August. Ermelinda Meksi, the ambitious new minister of European integration, whose predecessor resigned along with Mr Meta, has been fielding phone calls from Brussels. Now also deputy prime minister, she successfully handled Albania's negotiations to join the WTO.

AFP

Nano knows best

But Mr Meta's move has made the prime minister look weak just as he starts planning his campaign for local-government elections due in October—just over halfway through the government's four-year term. Sali Berisha, the belligerent leader of the opposition Democratic Party, has called for Mr Nano to stand down.

Albania's efforts to sell off big state-owned companies, build better roads, collect more taxes, and overcome a chronic power shortage—some of the main reasons for its failure to attract foreign investors—have all slowed under Mr Nano. Mr Meta got much more done during his brief stint as prime minister after the disruptive war in 1999 in neighbouring Kosovo.

European officials worry that Mr Meta's departure my cause reform to stall altogether. Negotiations over an EU “stabilisation and association” agreement, meant to be the first milestone on Albania's long journey to membership of the European club, are grinding along slowly. The speedboats that buzzed across the Adriatic to put thousands of illegal immigrants on Italy's shores have disappeared from the port of Vlora, a base for people-trafficking. A few traffickers have been tried and convicted. But international drugs and cigarette smugglers still use Albania as a transit route and warehouse.

As foreign minister, Mr Meta did a good job of improving Albania's traditionally prickly relations with Serbia and Montenegro (now in a loose union) and with Kosovo. That pleased EU governments, not least because it has facilitated cross-border co-operation to combat smuggling elsewhere in the crime-infested west Balkans.

Mr Meta's next move? At 34, he can afford to wait for another try at the prime minister's job. But his resignation signalled impatience. Except in Tirana, the capital, where the Socialist candidate, Edi Rama, the incumbent mayor, should be a shoo-in for a second term, the Socialists are expected to lose ground in the local elections. In the provinces, a lack of jobs, continued power cuts and pot-holed roads have

damaged the prospects of Socialist mayoral candidates.

The moment for which Mr Meta has been waiting may arrive in December, when the Socialists are to hold a party congress where he could challenge Mr Nano for the party leadership. That, say Mr Meta's friends, may be the time to strike.

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Russia's election campaign

A many-splendoured thing

Aug 28th 2003 | MOSCOW
From The Economist print edition

Russian democracy offers ever more alternatives but ever fewer choices

IRONY is not the Communists' strong card. “The party of the future,” reads their banner, hanging in front of a huge panoramic photograph of a party rally full of pensioners. The other 20-odd parties, their pavilions collected for the first time in a grand exhibition centre next to the Kremlin, offer the bemused voters a similar mix of the enticing and the bizarre: from the Party of Rus (the old Slavic empire's name), handing out certificates of Russian citizenship for sticking in any passport, to the mystic Unity Conceptual Party, which promises a scientific-spiritual system of global governance, with the euro and dollar replaced by the “energo-rouble”.

Indeed, to all appearances, the race for December's elections to the Duma, the lower house of parliament, is hotting up. Earlier this month Sergei Glazyev, a populist politician who was expected to throw his lot in with the Communists, announced that instead he is assembling a left-wing coalition (which, with crowning hubris, he invited the Communists to join). Anatoly Chubais, the controversial head of the state electricity monopoly, has joined the race as a candidate for the reformist Union of Right Forces (SPS).

Pasta Putinesca

The next Duma

	Poll rating, %	Duma share, % current	Duma share, % projected*
Pro-Kremlin block			
United Russia†	20	40.4	36.0
People's Party	2	12.0	2.0
Liberal Democrats	7	3.0	12.0
Communist block			
Communists	20	18.0	36.0
Agrarian Party	1	10.0	1.0
Yabloko	5	4.0	9.0
Union of Right Forces	4	7.0	3.0
Not sure	20	–	–
Won't vote/ against all	18	–	–

*Based on combination of party lists and single-mandate districts
†United Russia includes Unity (currently 18%), Fatherland All Russia (12%) and Regions of Russia (10.4%)

Source: Renaissance Capital's poll of polls

The Communists' own poll ratings have risen over the past few weeks, while those of the main pro-Kremlin coalition, United Russia, have slipped. This despite what should have been a popular move by the authorities: a crackdown on crime, ranging from the breaking of police corruption rings to a lengthy probe into Mikhail Khodorkovsky, Russia's richest man, and his associates.

Mr Glazyev, say the Communists, is just a Kremlin stooge, set up to steal their votes. More likely, says Nikolai Petrov, at the Carnegie Centre in Moscow, he will attract not left-wing voters but some of the sixth or so who decide at the last minute. That might hurt less the Communists than the People's Party, which peeled off from United Russia and represents members of the security services. Their split two months ago may be one sign of a power struggle within the administration.

But behind such charades, Russian voters are left with little real choice. In parliament, the People's Party is more likely to support than oppose the government. So too will parties like the ultra-nationalist Liberal Democrats, who usually vote with the Kremlin regardless of the colourful invective of their leader, Vladimir Zhirinovsky. Mr Glazyev's group could well do the same. That would give the authorities a majority even over a united opposition.

The opposition, meanwhile, struggles. The Communists' recent improvement may reveal discontent with the government which voters tend to express in polls by punishing United Russia rather than President Vladimir Putin. But in the long run their electorate, as their campaign poster suggests, is heading for extinction.

As for the sometimes-oppositional reformists, Yabloko and SPS, they hover near the 5% needed to get into the Duma at all. The typical Yabloko voter, according to VTSIOM, a polling firm, has become less of a

democratic liberal (the party's traditional constituent) and more of a disgruntled Communist—a sad comment on Yabloko's failure to build a democratic movement. Mr Chubais's inclusion on the list of the SPS, which he co-founded, suggests to some that the party's periodic internal debate about whether to be more pro- or anti-Kremlin has swung towards the first.

But democracy is not only becoming feebler; it may become less visible. Though state-owned, Russia's oldest polling firm, VTSIOM, has won a reputation for independence. Now it is to be privatised; its director, Yuri Levada, a dissident sociologist back in Soviet times, will be replaced by a board of government appointees. The company may lose its independence; judging the election's cleanliness by comparing the result with polls will be harder.

Then again, it may not matter. How the parties perform nationally will decide only half the Duma's 450 seats. The other half are chosen in single-mandate districts. In the past these were susceptible to manipulation by the local authorities; now, since Mr Putin has strengthened federal control and appointed many senior law-enforcement officers and judges in Russia's regions, they are more at the Kremlin's mercy. In any case, what a candidate says he stands for may have little to do with reality. After the 1999 election, nearly half the Duma's single-mandate members changed party affiliation.

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Turkey and the Kurds

Amnesty? What amnesty?

Aug 28th 2003 | SILOPI
From The Economist print edition

The failure of Turkey's amnesty for rebel Kurds is bad for the whole region

WITH its pristine washrooms, shiny new ping-pong tables and ubiquitous portraits of Ataturk, the founder of modern Turkey, the “Reintegration with Society Centre” was to have been a model camp for thousands of Turkey's Kurdish guerrillas turning themselves over to the authorities. But the only occupants of the converted school-house at Silopi, on the Turkish side of the border with Iraq, are scores of blue-bereted Turkish commandos and a couple of cleaning ladies. So far the amnesty law passed by Turkey's parliament that came into effect on August 6th has been a flop.

It was meant to lure back some 5,000 guerrillas of the Kurdistan Workers' Party (PKK) from their mountain strongholds in Kurdish-controlled northern Iraq. But the rebels have said no because the amnesty does not embrace the PKK's leaders. Moreover, a condition for granting reduced sentences for rebels who do turn themselves in is that they rat on those who do not.

Officials at the Silopi camp sheepishly admit that only eight PKK members have taken up the offer so far. Many Kurds, who have relatives among the guerrillas, say they should stay in the mountains until the government grants a full amnesty that would include Abdullah Ocalan, the imprisoned PKK leader, among others. But for all its reformist zeal, there is little chance Turkey's ruling Justice and Development Party will do so—and risk upsetting thousands of Turks who lost their sons in the PKK's bloody 15-year insurgency which ended soon after Mr Ocalan was captured in 1999.

All of this is troubling news for Iraq's new rulers, the Americans. They publicly promised to move against the PKK, describing them as terrorists. Privately they admit that they have enough trouble on their hands without creating fresh enemies in the only part of Iraq that remains fairly stable. The PKK says it will fight back if the Americans touch them. And it is threatening to resume its war against Turkey. That might suit some of Turkey's more hawkish generals, since a resumption of war with the PKK would help them reassert their political influence, which is slowly being diluted by reforms meant to let Turkey start negotiating to join the European Union. But if Turkey decided to send some 10,000 troops to help the Americans in Iraq, then the United States would come under greater pressure to hit the remnants of the PKK holed up near the Turkish-Iraqi border. Turkish officials have been meeting Iraqi Sunni tribal leaders to gauge their reaction to the presence of their erstwhile Ottoman rulers.

Iraq's Kurds want the PKK out as well, not least because its presence has allowed Turkey to justify the presence of some 3,000 of its own soldiers in Iraq's Kurdish enclave. The Iraqi Kurds say the Turks are there not to hunt down the PKK, which has largely kept the ceasefire it declared in 1999, but to undermine their 11-year experiment with self-rule. And unless the amnesty for the PKK is widened, trouble between various kinds of Kurds and other Iraqis is a good deal more likely.

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Slovenia and Croatia

Hey, that's my bit of the sea

Aug 28th 2003 | LJUBLJANA
From The Economist print edition

A new Balkan niggle—over the Adriatic

THEY should build a tunnel between Ljubljana and Belgrade, ran a Yugoslav joke in communist times, so that the Slovenes and Serbs could get along without the Croats getting in the way.

Slovenia and Croatia claim to get on much better nowadays, but tensions remain. Croatians think Slovenia got off lightly with its brief war of independence against Serbia, then helped Croatia far too little with its longer and bloodier struggle. They think the wealthier Slovenians patronise them. And they envy Slovenia its entry into the European Union next year, which will mean much tighter controls on their common border. Croatia is struggling now to be accepted even as a candidate for joining the EU club.

The result is periodic disputes, such as the latest one over control of the Adriatic Sea. Croatia says it may claim an “exclusive economic zone” across the eastern half of the sea, leaving the western half to Italy, and cutting off Slovenia's short coastline at the northern end of the sea from international waters.

The practical consequences for Slovenia would be slight. It would retain transit rights. But Slovenia rightly senses an insult. Diplomatic notes have been flying, and talks now are planned for mid-September.

Slovenians speculate that Croatia wants to explore the Adriatic Sea for oil or gas, or to promote expansion of its oil port near Rijeka, or to hamper the expansion of Slovenia's cargo port at Koper. The more probable cause lies in the approach of a Croatian general election later this year. The ruling Social Democrats are under threat from the nationalistic Croatian Democratic Union, and may hope to regain ground with some flag-waving themselves. But such tactics risk repayment in kind. An opinion poll in Slovenia this week found that Croatians are viewed, once again, as Slovenia's least favourite neighbours—by far.

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Politics

Blair's court

Aug 28th 2003
From The Economist print edition

Thanks to his civil servants and his own eloquence, Tony Blair did well at the Hutton inquiry

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IF THE “extraordinary” allegation that his government wilfully exaggerated the case for war against Iraq had been true, Tony Blair told the Hutton inquiry into the death of the government defence scientist David Kelly, then he would have had to resign as prime minister. The accusation struck at his personal integrity, and the credibility of the country. That, he explained, was why he had taken such a close interest in rebutting the BBC report which carried the allegation, based supposedly on an unnamed source that later turned out to be Mr Kelly.

Even the prime minister's most bitter critics accept that his advocacy skills are exceptional. They were on full display this week as he appeared before the inquiry. Mr Blair is only the second prime minister ever to be grilled by a judge about the conduct of his government. He was clearly nervous, sipping water frequently. But compared with his predecessor John Major's appearance before the Scott inquiry, which investigated illegal arms sales to Iraq in the 1980s, it was an exceptionally smooth performance. Mr Blair is at his best when his back is to the wall.

With his eloquent description of what he saw as the enormity of the BBC's allegation, Mr Blair largely dealt with one of the weakest points in the government's position: why a brief early-morning radio broadcast had consumed so much time and effort at the highest levels.

The main revelation in the early part of the day was the personal effort Mr Blair had made to persuade the BBC to back down. He spoke to Gavyn Davies, the chairman of the BBC governors, privately on July 7th, and sought vainly to persuade him to retract the story.

But in this as in other respects, Mr Blair's evidence slotted perfectly into the defences so expertly marshalled by a phalanx of loyal civil servants during the week. All insisted that the government behaved quite properly on both the charges it faces: first, how it presented the evidence of the threat from Iraq's illegal arsenal, and second, how it reacted when Mr Kelly complained to Andrew Gilligan, a BBC journalist, that the intelligence was being exaggerated for political ends.

Mr Blair acknowledged that his communications chief, Alastair Campbell, had advised on the presentation of the September 2002 dossier about Iraq's illegal weapons. But like the spymasters who gave evidence earlier this week, he insisted that the claims it made were based on real intelligence, rather than political spin.

The chairman of the interdepartmental Joint Intelligence Committee, John Scarlett, had told the inquiry that the allegation apparently made by Mr Kelly, that the government overruled the intelligence agencies and insisted on publishing the misleading claim that Iraq could deploy weapons of mass destruction within 45 minutes was “completely untrue”. Neither he, nor his colleagues, nor Mr Blair, said they knew of any discontent inside the intelligence services about the way in which the material was being handled. Mr Scarlett, himself a career spy, insisted that he had ultimate responsibility for the dossier's contents.

The upshot is that if voters were misled, it was because of genuine mistakes by the intelligence services, rather than by deliberate government exaggerations. That may dent the spooks' reputation with the public, but it lets Mr Blair off that hook.

The other big question is whether Mr Kelly was hounded to his death by a vengeful government. So far, the responsibility lies with civil servants. Both Mr Blair and Mr Hoon said that they were insistent that normal civil service procedures be followed. A senior securocrat, Sir David Omand, who is in charge of intelligence issues in the Cabinet Office, said that he had advised that Mr Kelly's name should be given to two parliamentary committees, one dealing with foreign affairs, the other with intelligence and security. He argued that the outing of Mr Kelly was justified on two grounds. First, he had caused “very great damage” to the government's credibility; secondly, withholding his name from the ongoing parliamentary inquiries was impractical and would have led to charges against the government of a cover-up.

This evidence is crucial. In effect it clears ministers of the charge that they overrode the advice of their civil servants in disclosing Mr Kelly's identity, thus increasing the pressure which led the scientist to take his own life.

The defence secretary, Geoff Hoon, whom many had cast in the role as sacrificial victim, made an unimpressive appearance before the inquiry on August 27th. Most of the key decisions, he insisted, had been taken by other people, chiefly his civil servants and Mr Blair's office. But the upshot is that the inquiry has made no serious cracks in the government's defences.

The impression given of the ways of government is the most fascinating part of the inquiry so far. Senior officials rush in and out of informal meetings in the prime minister's study. Frequently, neither notes nor minutes are taken. And as the courtiers jostle, mistakes creep in. Mr Blair's office initially dismissed Mr Kelly as a “technical expert...not involved in military intelligence”. In fact, he was closely involved in the production of the dossier and was present at a meeting at which it was discussed and where reservations were expressed about the 45-minute claim.

A mistake, then. But nothing like bad enough to threaten Mr Blair's survival.

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Scottish socialists

Cell politics

Aug 28th 2003 | EDINBURGH
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Jailing a Scottish leftist will not dent his popularity

A SPELL behind bars would end most people's political careers, but not that of Tommy Sheridan, leader of the Scottish Socialist Party. He is in jail this week for refusing to pay a £200 ($320) fine following his arrest at a protest against nuclear weapons.

It is not the first time. A jail sentence for defying a court ban on attending demonstrations was a key part of his first election success—winning a Glasgow council seat in 1992. After he gained the party's sole seat in the Scottish Parliament in 1999, it party took six seats in elections last May thanks to the proportional voting system. It is 50 years since an explicitly left-wing party did so well in a British election.

Mr Sheridan is not your typical dour and dotty leftist. He has cheerfully adopted the presentational skills of the much-despised Labour Party; he knows a good sound-bite, dresses sharply, and sports a sunbed tan. He has some equally photogenic and articulate colleagues.

His main ability, though, unique in British left-wing politics, is in uniting squabbling factions. His party, now 12 years old, allows groupings such as the dogmatic and quarrelsome Socialist Workers' Party to exist as “platforms”, provided they broadly follow the party line. Also unusually, that party line is decided not by a group of zealous hacks, but by all the members, around 2,500 in number. About two-thirds of these are not diehard leftists, but have joined via protests against new roads and other environmental issues.

The result is tension between the mainly revolutionary leadership (who want to overthrow capitalism) and the mainly reformist membership (who merely want to change the system). Thus, some see campaigning for such things as free school meals as a diversion from the main task of inciting a workers' uprising. But Mr Sheridan's populist *realpolitik* seems to be holding sway. Colin Fox, one of the party's Scottish Parliament members, notes wryly: “I don't see much sign of the death agonies of capitalism.”

Though Mr Sheridan's main aim is to replace Labour, he seems so far to be causing more pain to the Scottish National Party. His gains came in the proportional list part of the ballot (where the Nationalists do best) and not in the constituency vote (dominated by Labour). Moreover, Mr Sheridan's party, like the Nationalists, supports independence.

This so worries some Nationalists that John Swinney, the party leader, faces a leadership election next month, challenged by a party activist demanding a more fiery pro-independence stance. Mr Swinney will win, but beating off the cheerful Mr Sheridan will be harder.

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Deregulated directory inquiries

What number?

Aug 28th 2003
From The Economist print edition

British consumers are oddly averse to more choice in telecoms

MUCH wailing and crossness has accompanied the scrapping this week of the simple but over-priced telephone directory inquiries service available from BT, the former telecoms monopoly. Instead of the simple 192, consumers can now choose between an exotic array of new providers. But all offer—horrors—different prices and services, under numbers starting with the 118 prefix already in use in eight continental European countries.

The new arrangements do have some snags. The pricing is confusing, especially in calls from mobile phones which can be much more expensive than advertisements suggest. Not all services are available from all networks. Quality varies hugely. In a test of the international directory services by *The Economist*, a request for the number of the British embassy in Berlin cost between 73p and £2.25 to answer, and took between 27 seconds and nearly six minutes. Only half gave the right number.

Many people will use directory inquiries too seldom to find out which service is the best value for money. But that is no reason for not liberalising. As in many things, smart shoppers will do better than infrequent users, the stupid and the lazy.

And foreign experience suggests there is little to worry about. Germany, for example, has 40 directory-assistance companies with a wide range of charges, including one which provides information in Turkish. Nobody seems to find that choice confusing. In America, by contrast, local and long-distance directory information is strictly regulated by individual states, although the Federal Communications Commission is considering enforcing a choice of information services on local telephone operators.

The real point is that most of the information people need from directory inquiries is available on the internet anyway. What commercial providers have to do is to add value—as does, for example, BT's Scoot 333, which finds businesses by location and category. As with liberalised gas, electricity and other telephone services, it may all seem confusing at first, but in the end the result of competition will be that things will become cheaper and generally better. The odd thing in Britain is that this simple lesson is still so often obscured by the public's nostalgia for the past.

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Emergency numbers

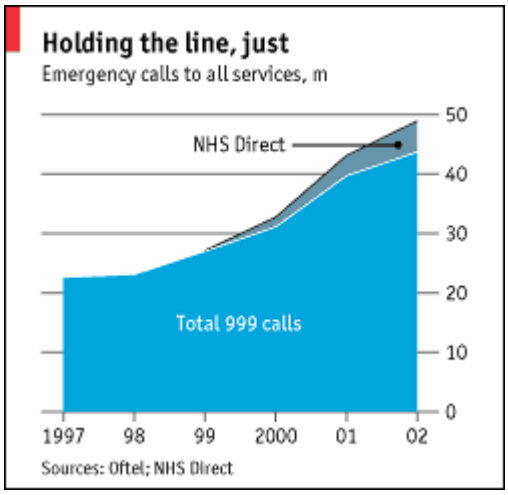
Panic attacks

Aug 28th 2003
From The Economist print edition

The emergency services struggle with success

PUBLIC awareness is a good thing, but it can be overdone. Britain's police, fire, and ambulance services are all reachable under the easily remembered emergency number 999. But overuse of the number is becoming a pestilential problem.

The number of 999 calls dialled has risen steadily in the past ten years, and has almost doubled since 1997. Peaceful rural areas have seen some of the greatest increases—the annual number of emergency inquiries to the Wiltshire police has risen from 54,000 to 126,000 in the past three years, for example. Not surprisingly, responding properly to so many calls is impossible. Tabloid newspapers have lately been regaling readers with lurid stories about public-spirited citizens who bravely tackle criminals only to wait hours for the police to arrive.



Mobile phones, from which around 60% of all emergency calls are dialled, are partly to blame for the crush. Motorway crashes and roadside fires produce dozens of “good Samaritan” calls from drivers who, ten years ago, would have been forced to pull off the road to find a phone (not many did). Another menace is the so-called “silent call”. The software that locks a mobile phone keyboard when carried in a pocket or handbag still allows 999 calls. Chance knocks on the keys produce tens of thousands of unintended calls, all costing time and effort to deal with.

There are some answers. Mobile phone providers, stung by a recent increase in the charge they have to pay BT for routing emergency calls, have worked to reduce the number of accidental misdials. Some control centres have installed software that prompts silent 999 diallers to confirm their emergency status by pressing another number—usually 55. Very few do so, and the other calls are discarded.

Yet the tide of diallers in a genuine panic continues to swell. One cause is the difficulty of reaching everyday public services. Henry Guly, a consultant in the accident and emergency department of Derriford Hospital, in Plymouth, says that many of the people that summon ambulances try first to ring their normal doctor, only to hear a recorded message telling them to ring 999 in an emergency. “There has been a transfer of workload from general practitioners to the ambulance service,” he says. “We are seeing more patients, and they are older and sicker.”

One idea suggested to Oftel, the telecommunications regulator, is to introduce a standard non-emergency number, along the lines of 311 in the United States. To judge by the success of NHS Direct, which offers health-care advice over the phone, this would go down well with the public. But without a lot of effort to make it work, it won't cut the emergency services' burden. Gloucestershire police, who have just registered their busiest month ever, found their non-emergency lines swamped by callers who couldn't get through, and so hung up and dialled 999 anyway.

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Celebrity economics

Snap pop fizz

Aug 28th 2003
From The Economist print edition

The market for celebrity snaps is booming. Hide now

SUMMER in the news business brings a drought of words but a flood of pictures, particularly when a starlet in a bikini (or, even better, out of it) is involved. For paparazzi photographers, who make their living from snapping celebrities, it is the busiest time of the year.

Readers like their starlets startled, in the form of pictures taken without the subject's consent. The market for these in Britain has grown sharply since early last year, with the launch of new magazines like Northern & Shell's *New!* to compete with EMAP's *heat* and IPC Media's *Now*. These titles have increased their circulation at the expense of old-style celebrity magazines that feature posed photographs. EMAP's fame-focused magazines alone now sell almost a million copies every week.

Prices reflect exclusivity, newsworthiness and the subject's fame. Details are rarely released, but range from a few thousand pounds to the £150,000 ($235,000) believed to have been paid this year for one set of particularly gawp-worthy snaps. Oddly, pictures of stars in mundane settings (shopping for groceries for example) are worth more than those boring ones set in exotic night-clubs.

Barriers to entry in the market are low (a camera and quick wits). Coupled with high rewards, that has attracted newcomers. Darren Lyons of Big Pictures, a specialist agency, says he now has 22 regular photographers and 400-600 freelancers. The general public can sell pictures too, though only 5% of those he sees are saleable.

Competition encourages effort and ingenuity. The traditional way is a combination of chutzpah and patience—some paparazzi will wait by a subject's doorstep for a fortnight. But it is often more efficient to rely on tipsters such as security guards, doormen, chauffeurs and restaurant staff.

Is it becoming more intrusive? Not according to the Press Complaints Commission, the media self-regulator. The number of complaints upheld about paparazzi pestering has halved in the past five years. One reason is that more celebrities are collaborating with their pursuers. It strikes many people as more than pure luck that Jason Fraser, one of the best-known and most controversial paparazzi, has such a knack for catching David and Victoria Beckham, when the famous footballer and his wife are supposedly unawares. Another agency puts semi-celebrities on a boat in the south of France and then photographs from a distant camera with a long lens to give the picture the right feel.

The victims in all this are not the subjects—who for the most part are getting exactly the coverage that they want to keep their brand value up—but the starstruck readers. They think they are paying for a candid glance at a celebrity in real life, when in fact the product is as manufactured as a PR handout.

Over time, such misapprehensions are likely to erode. The best test of authenticity is a simple one: if a picture shows the subject looking old, fat, gaunt, sad, drunk, ugly or silly, it was most likely taken against their will. Whether that is worth paying to look at is another matter.

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Arts audiences

As you like it

Aug 28th 2003
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Hefty subsidies have failed to make arts audiences more diverse

ELIZABETHAN dramatists didn't think much of their audiences, particularly the flea-bitten rabble that thronged the fringes of the stage. They ridiculed the “groundlings” and “garlic-mouthed stinkards”, who, as the snobbish Hamlet put it, “are capable of nothing but inexplicable dumb shows and noise.” But at least the Shakespearean theatre pulled in a diverse crowd—which is more than can be said for its modern equivalent.

Nowadays, theatres, like other venues of high culture, are actively seeking to attract groundlings. Through Arts Council England, a quango, taxpayers have spent £20m on trying to lure younger, poorer, less white audiences. Another dollop has gone to educational and online projects. Abolishing entrance charges at national museums in 2001 cost a further £83m. The new vision for the arts is not as an engine for economic growth (the old Tory notion), but as a means for facilitating national cultural togetherness.

Results have been modest, to say the least. According to MORI, a polling group, the proportion of lower-middle and working-class people (C2s, Ds and Es in demographer-speak) who make it to the theatre, opera, or ballet at least once a year has risen merely from 21% to 24% since 1999. Meanwhile the share of culture-vultures among the middle and upper classes (As, Bs and C1s), has risen from 43% to 51%.

As for museum and gallery visitors, Sara Selwood, who follows the cultural industries at the University of Westminster, says that the abolition of entrance fees has meant “more middle-class people going more often, but for less time”. That does nothing for museum budgets; people popping in for a quick culture fix are less likely to buy sandwiches or souvenirs.

Targeted attempts to bring culture to the masses have often fallen flat. A special, free performance of Wagner's *Götterdämmerung* opera for under-27s attracted fewer than 250 punters to Edinburgh's cavernous Festival Theatre earlier this month (full-cost performances at the same venue were packed with paying oldies). Galleries in London that have experimented with late openings find that their audiences are less diverse than during the daytime. One survey for the Arts Council found that almost half of the “extra” visitors regularly go to galleries more than once a month, while two-fifths work in the cultural and creative industries.

As the Edinburgh fiasco suggests, high admission costs are not the main bar to pulling in a more varied crowd. One recent study of 16-to-24-year-olds suggested that they had money to burn: more than half splashed out at least £45 per week on entertainment. But the call of foreign holidays, happy hours and clubbing outshouts offerings that are seen as dull, difficult and snooty. There lies the challenge for Shakespeare's successors.

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The economy

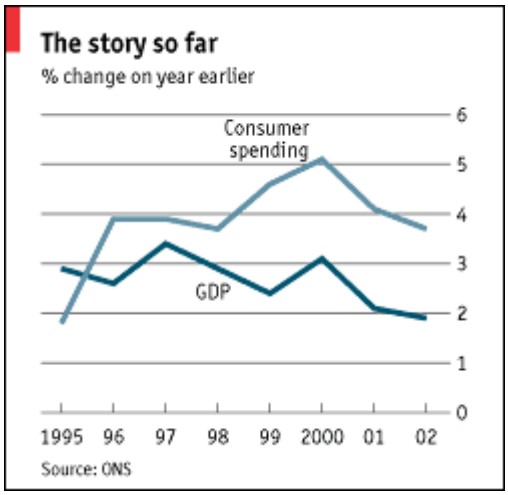
Rewriting history

Aug 28th 2003
From The Economist print edition

Less growth and a milder consumer boom, thanks to new statistics

CONSUMER spending, according to figures released in August, still plays a worryingly big role in the British economy. In the second quarter of the year, it rose by 1.3% while GDP increased by only 0.3%. Since 1995, consumer spending has grown by 4.1% a year compared with an average GDP growth rate of 2.6%.

Yet this picture will soon be redrawn. In September, there will be important changes to the way the national accounts are calculated. The overall effect will be twofold. Growth rates for GDP in recent years will be trimmed a bit, says Ciaran Barr, an economist at Deutsche Bank. And the imbalances in the economy—particularly that dependence on runaway consumer spending—will look less acute.



The main change is in the way statisticians strip out price changes to establish what is happening in real terms. Annual updates will replace a system where the figures are changed at five-year intervals. Under past practice, GDP figures based on 1995 prices were due to have been revised this year, using 2000 prices. Under the new system, each year's numbers will be updated in prices of the previous year. Called annual chain-linking, this brings Britain into line with practice in America and in seven other states in the European Union (EU).

Annual chain-linking addresses a flaw in the existing system for estimating real GDP, which weights different sectors of the economy according to how important they were in 1995. But, partly thanks to innovation, prices tend to fall in fast-growing bits of the economy relative to more sluggish parts. So converting recent current-price estimates back into higher 1995 prices exaggerates overall growth.

Estimates by the Office for National Statistics (ONS) suggest that GDP growth from 1998 to 2001 will indeed be cut by up to 0.2% a year. The statisticians find that the main sector responsible for the downward effect is communications services such as mobile phones, where output has raced ahead but prices have tumbled.

Although the growth record will lose some of its gloss, the economy will look more balanced. Much of the demand for electronic gadgetry and services like mobile phones has come from consumers, taking advantage of falling prices. But when household expenditure is expressed not in 1995 prices but in more recent ones, the boom looks less bouncy. Real consumer-spending growth for 2000 is expected to fall from 5.1% to 4.4%; for 2001 it will drop from 4.1% to 3.5%.

The revisions will also include new GDP estimates to take account of the “missing trader” fraud in which VAT on the sale of goods imported from the EU is evaded. Since VAT returns are used to estimate trade with the EU, this has led to a substantial under-estimate of imports in recent years.

More imports mean more demand satisfied by overseas suppliers. Accounting for that would cut growth by a further 0.2% in both 2000 and 2001, but this will be offset by other revisions. Yet if imports were higher than previously calculated, then consumer spending must also have been higher. That will undo some of the dampening effect of using annual chain-linking. But overall, Robert Barrie, an economist at CSFB, an investment bank, expects consumer-spending growth will be revised down. That will help to

allay worries that the consumers' splurge will end in tears.

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Electricity supply

A price rise? Good

Aug 28th 2003
From The Economist print edition

Market forces brought prices down, and now up. But they raise problems too

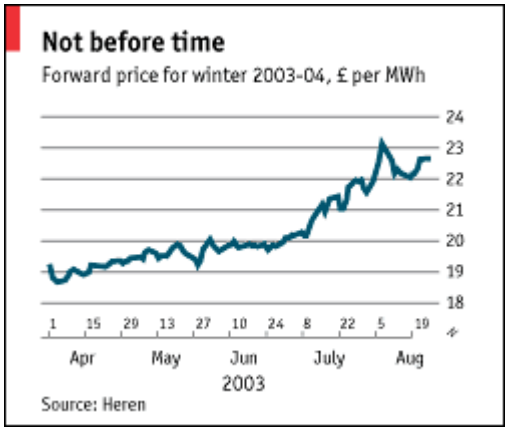
LAST March, Powergen, one of Britain's big electricity suppliers, mothballed two units, amounting to 1,320 megawatts (MW) of capacity, at its oil-fired generating plant on the Isle of Grain, in Kent. This week, engineers were working to bring one of the units back on stream. Three weeks ago, the American owners of the 3,870MW coal-fired station at Drax, in Yorkshire, put it into administration. This week three companies were vying to buy up portions of Drax's massive debt and with it stakes in the equity. Has the great electricity price slide ended?

It began in the winter of 1998-99, when households and other small consumers were at last freed to switch suppliers. By March 2001 some 7m households had done so. That month a new, competitive system of wholesale pricing (in England and Wales only) came in—at about the time that the economy began to slow.

The effect by late 2002 was that prices fell some 40%, to around £15 per megawatt-hour (MWh). At the high oil price of the time, old oil-fired plants needed £40 per MWh to make money. Even modern gas-turbine plants were in the red: they are more efficient, using waste heat to drive conventional steam boilers, but they still needed over £20. And British Energy, whose ageing nuclear plants accounted for about 15% of the nation's capacity, was going bust. Meanwhile, new capacity, started years before, was coming on stream.

The natural result was plant closures, and plans for further new ones pigeonholed. In early 2002, National Grid—the company handling electricity distribution in England and Wales—expected generating capacity of 67,000MW ("imported" capacity of about 4,000MW from Scotland and France included) to rise by 2008-09 to more than 83,000MW. Within just nine months that forecast rise had halved.

Fears that Britain risked future power cuts at times of peak demand rose after the North American blackout in mid-August. Powergen was quick to suggest that power prices would have to rise to meet the cost of updating Britain's distribution system. But neither the distribution network nor generating capacity looks vulnerable, at least in the short term. Last winter's peak demand was over 17% short of total capacity. The gap may be a bit less next winter, but not dangerously so; and the grid managers are encouraging more energy-thirsty users like smelters to sign up for schemes that offer discounts in return for the right to cut their supplies at short notice.



But what if there is an extremely cold winter, this year, next year, or thereafter? Idle plants can be brought on stream very rapidly; mothballed ones cannot. That unit on the Isle of Grain will be ready only late next week. And looking further ahead, projects for new plants, once delayed, cannot be suddenly accelerated, when the economy looks healthier, to catch up with months or years of delay. An existing link to France, and two planned to Norway and the Netherlands later in the decade, will not be safeguard enough. Extra generating capacity will be needed.

That is why the revival on the Isle of Grain and the rivalry for Drax, due to be settled this week, are important. The rising wholesale price (see chart) that has helped to inspire both is good news, not bad. But will it last, or prove a mere blip? The government will certainly hope for the former; power generation is an industry subject to market mechanisms, but with long lead times, no short-term retail-price

adjustments, barely any storage for its product and severe limits on import capacity if supply should fall short. Yet every voter in the land expects it to be available at the flick of a switch.

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Piracy and the movie business

Tipping Hollywood the black spot

Aug 28th 2003
From The Economist print edition

The movie business is not doing enough to ward off the threat of digital piracy

AS HOLLYWOOD bosses know all too well, digital piracy could plunder their industry. The music business, where piracy has long been active, has lost a quarter of its sales already. Watching its plight, the movie moguls say, has taught them a lesson: listen to what the customer wants and keep the business model flexible. But investors are not convinced that Hollywood's leaders are on top of the piracy threat. Like Scarlett O'Hara in “Gone with the Wind”, says Gordon Crawford, an investor at Capital Research and Management in Los Angeles, many have decided to do something about it tomorrow.

It is true that movies are not yet as vulnerable as music. Hollywood starts from a better position. Its products are priced more reasonably than CDs. People want to watch all of a film, so there is no incentive to download a single track. It can take days to download a movie from the internet, unlike a song, which takes minutes.

But rampant DVD piracy may be coming soon, both in the form of traditional counterfeiting and downloading from the internet. Hard pirated copies are widespread, and will proliferate further with the spread of DVD recorders and burners. Already as many as 600,000 movie files are shared each day on peer-to-peer file-sharing networks such as Morpheus and Grokster, according to the Motion Picture Association of America (MPAA). That number is likely to soar as more households get broadband internet and compression technology cuts download time.

Movie industry bosses say that they are doing plenty to combat the threat. As well as helping local police with raids on counterfeiters, they are devising “digital rights management” (DRM) techniques, such as deleting content after the user has “consumed” it. They are also offering movies cheaply online and seeking new laws. This week they won a battle against pirates when California's Supreme Court ruled that the First Amendment right to free speech cannot be used as a defence by someone publishing trade secrets on the internet—in this case, software to break DVD copy protection.

American Pie-in-the-sky

Next will come an Orwellian project to “re-educate” the young. With Junior Achievement, a volunteer teaching organisation, the MPAA has developed a curriculum for use in 36,000 American classrooms

which teaches that swapping content is wrong. Older file sharers will be hard to persuade, however, and hackers can usually get around any copy protection the industry devises. According to the Pew Internet & American Life Project, 65% of people who share music and video files online say they do not care if material is copyrighted. Last month, the MPAA tried an emotional approach, with a series of adverts in which a set painter, a stuntman, a make-up artist, a grip and an animator explain how piracy hurts them, not just the big bosses. The campaign is unlikely to have much effect, industry-watchers say, as everyone knows how many millions the latest blockbuster grossed and how much the star got.

To frighten people, the big music firms are going after individuals in court. Movie firms reckon that this will help them too, though for now they are leaning on universities to stop their students file-sharing. One studio suggests that parents could be presented with a bill for their child's downloading activities at college, and degrees could be withheld until someone pays. Universities may stand by their students, however. For the Massachusetts Institute of Technology (MIT) to withhold degrees, says a spokesman, the student would have to be a “serious recidivist”. This month a federal judge ruled that MIT, along with Boston College, need not obey subpoenas from the music industry seeking the names of students it suspects of being heavy file sharers, if only because they were filed from the wrong jurisdiction. Legal attacks may scare people, but risk alienating customers and making them try harder to rip off the industry, which cannot, even in America, sue everyone.

Although Hollywood executives say they want to listen to customers, most of their efforts have been to stop and punish downloaders, not to make their products more attractive—with one exception. Five studios have launched Movielink, an online site charging $3-5 to download a movie. But the service is still “clunky”, admits a studio spokesperson. It cannot beat a good video store either for range of titles or for having the latest releases. Customers do not end up owning the film.

Assuming it is not resigned to milking all it can from its customers while awaiting inevitable demise at the hands of the pirates, the movie industry should rethink its business model. Movielink might be improved. Prices might be cut to reduce the appeal of piracy. Hollywood should lower the price of DVDs from today's $15-20 to $7-10, says Tom Wolzien, an analyst at Sanford Bernstein, and go for volume. The studios have packed their DVDs full of extra content—director's cuts, and so on—supposedly offering more value. Why not sell a no-frills, cheaper version? asks James Roberts, a consultant at Mercer.

Studios might also change how they release movies. Opening a blockbuster in America but not in Britain, for instance, increases demand for pirate copies, as does holding back a movie from release on DVD and video. The studios need to shorten their release windows, says Michael Wolf, director of McKinsey's global media and entertainment practice. They have done this a bit already, he says—with simultaneous global “day-and-date” releases of, say, X-Men 2—but not enough.

In the 1980s, software companies used to fight online pirates with DRM technology. But they found that copy protection annoyed users, and got rid of it. The makers of Lotus 1-2-3, a spreadsheet program, abandoned it after finding that they had merely created a new market for software that could defeat copy protections. Now the music industry is realising that often some of the downloaders it labels as thieves are actually trying out music before they buy it, and that controlled, legal file-sharing could be a marketing tool. Viral marketing of that kind, says John Rose, head of the anti-piracy effort at EMI, a music company, could be powerful. Hollywood should take note.

The outlook would be much less grim if the entertainment business could do a deal with the firms that make electronic gadgets. For copy protection to work, hardware needs to spot it. So far, says an investor, Hollywood has not had the top-level discussions that it needs with consumer electronics and PC manufacturers. Part of the reason, he says, is that piracy is not being tackled by the bosses of media companies. The task gets delegated. But even if Sumner Redstone, chairman of Viacom, were sitting down with Sony's chief, Nobuyuki Idei, the discussion might not go far. The consumer-electronics industry has little to gain by making products that seriously hinder piracy, as these would be unattractive to customers and hurt sales.

If the movie industry does not work out its position quickly, says Mr Wolzien, it could go the same way as music. This might even mean that actors would be paid a lot less. Some are well aware of this. Several movie stars, says a studio executive, even offered to appear for nothing (nothing!) in the MPAA's anti-piracy adverts, but were turned down. This time, understandably, the industry pointed the cameras at its humbler members.

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Corporate governance

WorldCom's revenge

Aug 28th 2003 | NEW YORK
From The Economist print edition

Out of WorldCom's ashes, bold ideas

Get article background

FOR all the flaws in American capitalism exposed recently, the debate about how to change things has, by and large, studiously avoided measures that might seriously discomfort corporate executives. New federal laws, such as the Sarbanes-Oxley act, have created a dense thicket of rules prescribing good behaviour in the boardroom. But the system's essential features—weak boards, muted shareholder participation and sweeping powers for the boss—so far remain intact. Into this comfortable state of affairs, MCI, a firm formerly known as WorldCom, is about to inject a welcome dose of fresh thinking.

As part of a settlement with the Securities and Exchange Commission (SEC), WorldCom agreed to a governance overhaul. The man picked to draft the reforms was Richard Breeden, a former SEC chairman. Mr Breeden has not shirked his responsibilities. Submitted on August 26th, his report contains 78 separate reforms, all of which MCI has agreed to adopt. Called “Restoring Trust”, it addresses weaknesses that go “well beyond WorldCom”, notes Mr Breeden. His reforms may even mark the beginnings of a new model for the American company.

The most desirable feature of good governance, argues Mr Breeden, is a balance of power between shareholders, directors and managers. WorldCom's then chief executive, Bernie Ebbers, became an “unrestrained force”—which created the conditions for WorldCom's $11 billion fraud and bankruptcy, the biggest ever. “One cannot say that the checks and balances...didn't work adequately,” writes Mr Breeden. “There were no checks and balances.”

Mr Breeden's solution is to hand more power both to the board and to shareholders. MCI's current chief executive, Michael Capellas, must relinquish his role as board chairman to an outside director, a power sharing that remains deeply unpopular with American bosses. All other directors must demonstrate their full independence from management (the New York Stock Exchange insists only that half of the directors be independent). Director qualifications and workload will increase, as will salary: WorldCom paid directors $35,000 a year; MCI will give them $150,000.

Mr Breeden also places big constraints on the freedom of management and board to act independently from shareholders. Mr Capellas must declare an explicit dividend policy, which he can change only with the consent of shareholders. To prove the purity of its accounting, Mr Breeden suggests that MCI pays out 25% of net profits. The board may not pay Mr Capellas more than a specified amount each year (Mr Breeden suggests a paltry $15m or less) without shareholder approval. Big shareholders also help to choose new directors. If no agreement with the board is reached, the firm must run contested elections.

The firm's website will host electronic “town hall” meetings for shareholders to make proposals to management. Ideas that win the support of, say, 20% of shareholders, must be put to a vote at the next annual meeting. All governance rules, moreover, will be written into MCI's articles of incorporation, meaning that changes to them must be approved by shareholders. Where they bother to write them down, American firms for now use company bylaws, which boards routinely change without notifying shareholders.

Mr Breeden's reforms will no doubt invite the sort of quibbles from governance experts that all such lists attract. And they may go too far in their proposal to ban the chief executive from sitting on other company boards. But this should not obscure their wider importance. If they want to avoid reregulation, argues Mr Breeden, firms must do much more to address the legitimate concerns of investors that American managers still lack proper checks and balances. Mr Breeden says that Mr Capellas has

embraced his ideas enthusiastically. Run well, MCI could become a powerful example of a new, more enlightened approach to governance. Some American bosses will pray that the venture fails.

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Telecoms

Bad call

Aug 28th 2003 | NEW YORK
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Are the latest charges against MCI phoney?

Get article background

MCI, the renamed WorldCom, has not wasted time in the bankruptcy courts. It has purged management, agreed to big governance changes, and put together a plan of reorganisation that has won the support of its creditors. Yet big obstacles remain to the firm's relaunch, not least a campaign by its telecoms rivals that has stirred up the press and politicians against MCI.

The latest blow comes from Oklahoma, whose attorney-general has filed criminal charges against MCI and six former WorldCom executives. This follows allegations by AT&T, SBC and Verizon that WorldCom routed calls improperly and cheated them out of long distance revenues. MCI's rivals discovered these infractions, which date back a decade, thanks to the paid services of a “whistleblower”. Gaming access-charge rules is routine in telecoms, and squabbles are usually handled outside the courts. Verizon says what took place was far from routine. In July, MCI was temporarily barred from winning new government contracts, presumably after lawmakers put pressure on bureaucrats. Big telecoms firms are famously generous with campaign contributions.

AT&T, SBC and Verizon argue that allowing WorldCom to restructure itself would be “unfair”. Its massive fraud tarnished the entire industry. The last thing it deserves is to be given a second, less indebted, chance. Mixed in with the desire to attack a vulnerable rival may be some genuine hate. AT&T has always loathed MCI, its first big rival in the long-distance telecoms market.

Ultimately, these attacks amount to an assault on the legitimacy of America's bankruptcy process. The courts are there precisely to separate bad managers from potentially valuable assets, lift debts from shoulders that cannot support them, and preserve value that alternatives, such as liquidation, might destroy. Nowhere in the bankruptcy code is there a provision for fairness to competitors. Oklahoma's attorney-general may well get nowhere with his lawsuits. At least some of MCI's rivals' claims look flimsy. But the whole affair has deeply unsettled the bankruptcy industry. Politicians should think about what, exactly, they are attacking when they do the bidding of MCI's rivals.

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America's car industry

Still power in the union?

Aug 28th 2003 | CANTON AND DETROIT
From The Economist print edition

Talks between the union and Detroit's Big Three are at a delicate stage

THE United Auto Workers Union (UAW) fears nobody more than the likes of Jerry Crisler. A robot tender at the new Nissan assembly plant in Canton, Mississippi, Mr Crisler is one of the swelling ranks of proudly non-unionised American autoworkers. “There's no need for them here,” he says of the union, echoing the opinion of most of his fellow Canton workers. Over 3m units of capacity have been added to North America's car industry by Japanese and European firms. But, thanks to workers such as Mr Crisler, efforts to unionise the foreign “transplants” have got nowhere, despite being top of the UAW's agenda. That failure is now being felt at the bargaining table.

But there were still smiles and handshakes last month, as the UAW and Detroit's Big Three firms began their first round of contract talks since 1999. As always, the union delivered a long wish list—the spiral-bound document prepared for General Motors ran to 115 pages, and included demands for everything from free chiropractic care to a seat on GM's board.

AP

Beats working

Despite the steadily declining influence of American unions, the UAW has remained successful. Its members enjoy pay and benefits matched by few other manual workers. The union has unprecedented influence over corporate decisions. In January 2002, Ford said it would close assembly plants in St Louis and in Edison, New Jersey—but clauses in the current contract forced it to put this plan on hold.

Ford's negotiators have tough demands of their own, as do those at GM and the American Chrysler unit of DaimlerChrysler. Together, they want to end restrictions on plant closures, make job cuts easier, boost plant flexibility and make workers pay more of their health-care costs.

How much of this the UAW will agree to is unusually unclear. Workers such as Mr Crisler are one of the reasons why. Firms such as Nissan have been careful to keep pay and benefits close to those of the Big Three. But they have a significant edge in terms of plant flexibility. Toyota, Honda and Nissan are all much more efficient than local firms. According to data from the Centre for Automotive Research and a report by Harbour and Associates, a research firm, labour contributes more than $8,600 to the cost of building a compact car at a unionised Big Three plant, but barely $6,000 at one of the Japanese transplants. Nissan's first transplant, in Smyrna, Tennessee, can assemble an Altima sedan in under 16 hours—up to ten hours faster than for similar Detroit cars.

True, over the years the UAW has gradually agreed to a steady increase in efficiency. But only in exchange for lucrative “early out” retirement schemes that have saddled the Big Three with vast ranks of retired workers—some 475,000 of whom now collect benefits, compared with just 300,000 active employees. At GM the retired-to-active ratio is roughly two-to-one.

This burden, plus the fierce price-and-incentives competition in the industry, has savaged the finances of the Big Three. There has been speculation that one or more of the American car makers will go bust in the not-too-distant future.

The UAW faces a Catch-22 situation. Ignore the Big Three's demands and the already uncompetitive American car makers will continue to lose share—resulting, eventually, in further job cuts. Yet looking too

eager to please the firms may undermine the standing with members of Ron Gettelfinger, the union's boss, who last year replaced the late Stephen Yokich, who was never a corporate pushover.

Equally, the firms cannot afford to push too hard, or too softly. A strike would probably drive them far into the red, perhaps over the edge—and in today's competitive market, lost market share might never be regained. On the other hand, they need to win concessions from the union.

The UAW seems more ready to give ground on flexibility and job cuts than on reduced pensions and health-care benefits. But job cuts might just add to the future burden of benefits by creating more well-rewarded early-retired folk. The firms privately hint that, to strike a deal, they might agree to encourage their non-unionised parts suppliers to let in the UAW. DaimlerChrysler might agree to encourage, rather than hinder, UAW recruitment at its Mercedes-Benz plant in Alabama.

Technically, each of the Big Three will negotiate its own contract with the union. In reality, the UAW will pick a so-called “strike target” shortly before September 14th, when the current contract is due to expire. They will then attempt to craft a “pattern” agreement to be copied, with modest changes, by the other two firms. GM seems the likeliest target, as it is making most money, but the UAW has been unusually reluctant to give clues.

Traditionally, as a deadline approaches, both sides turn up the rhetoric in a bid to please their own supporters. This year has been notable for its lack of noise—evidence of the weakness of both sides, and their desperate need to strike a deal that can be sold as win-win. “I have nothing to say,” insists the normally voluble GM vice-chairman, Bob Lutz. That is probably grounds for optimism.

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Yachts and lesser craft

A fairer wind

Aug 28th 2003 | CHICAGO
From The Economist print edition

A welcome change in America's economic weather?

FOR America's boat owners, Labour Day (on September 1st this year) signals that summer fun is nearly over. But boat makers are already selling 2004 models. Initial orders suggest that the industry is growing again, at last.

Earlier this year, a weak economy, war worries and bad weather hit the traditional buying season, which runs from late winter through to early summer. The National Marine Manufacturers' Association says that unit sales, sliding since 2001, fell further in the first quarter, thanks partly to a 27% year-on-year plunge in March during the war in Iraq. In May (the latest month reported), unit sales were still off, but dollar sales rose. Preliminary June data show both rising.

“Everything is picking up for us except large yachts” over 50 feet (15m), says Dusty McCoy of Brunswick, a leading boat builder. In recent years, as the wind came out of the economy's sails, boat sales fell segment by segment, then recovered, he says. First hit were cheap runabouts, next mid-range cruisers, and then yachts over 35 feet, which have recovered only this summer. In July, Genmar, Brunswick's main rival, said that sales of boats had recovered dramatically in the previous two months. Dealer orders were up on a year earlier in all categories—even Carver yachts, which cost $200,000 to $1m each. Over 60% of boat purchases are paid for with some borrowed money, says the Marine Bankers Association, with the average loan around $25,000. Some dealers think that the recent surge in sales was due to fears of higher interest rates to come.

One group of yacht buyers sails on smoothly regardless of changes in the economic weather, however: the elite set who can afford mega-yachts costing $6m-40m. Frank Herhold, of the Marine Industries Association of South Florida, says that nearly 500 such boats are currently being built, up by 70% since the previous count in 1997. For a fortunate few, it seems, summer never ends.

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Black empowerment

Plant now, harvest later

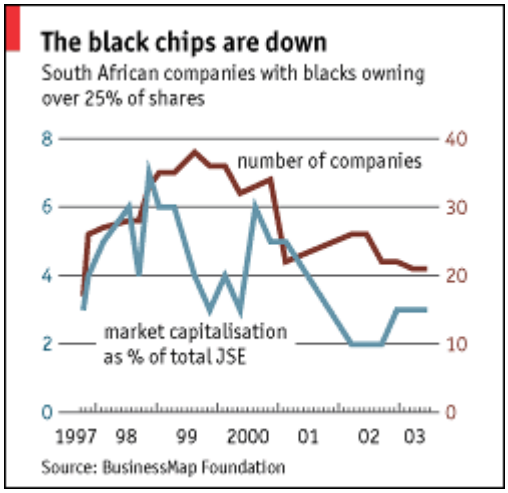
Aug 28th 2003 | JOHANNESBURG
From The Economist print edition

Will a new law reassure investors and make black South Africans richer?

WHEN even South Africa's stuffy wine industry talks about “empowerment”, it is clear that all sorts of firms now feel pressure to enrich more black people. One of the country's oldest and grandest vineyards, Boschendal, is about to be bought by a consortium including a black shareholder. Is South Africa's economy finally being “deracialised”?

Not just yet, but a government-backed bill that goes to parliament on September 2nd, aims to make it so. The Broad-Based Black Empowerment bill, likely to become law this year, is a comprehensive effort to say exactly what firms are expected to do.

So far official policy has focused on shifting some capital from white to black hands. That helped a few well-connected black businessmen to extract lumps of wealth from white firms eager to curry favour. It did nothing for most black South Africans. “Black-chip” shares remain a lacklustre segment of the Johannesburg stock exchange. So the government wants to get black employees into share-ownership programmes. And it wants broader change, including faster transfers of skills and more jobs for unemployed blacks.



This is a huge project, and only some of the details of the legislation have been agreed. It will give legal clout to industry charters that promote the interests of black firms and workers—such as the existing mining charter that aims for 26% of mining capital to be in black hands within a decade. Most mining firms are ahead of schedule with capital transfers, perhaps because failure to comply might result in losing their mining licences.

Local banks are especially touchy because foreign financial institutions, with growing interests in South Africa, want exemptions from capital transfers. On August 22nd, Lionel October, a trade-ministry spokesman, promised that, “as for multinationals, we do not expect them to dilute any of their structures.” Instead they would be asked to provide more training for black workers, or to form joint ventures with local, black, firms.

Other firms that need licences, or official contracts, will face a stricter code. Bidders for licences in the 7 billion rand ($950m) a year gambling industry must meet minimum pro-black standards. In every industry, a trade-ministry scorecard will set standards, weighing three main factors equally: black ownership and management; skills and jobs creation; use of black suppliers and joint ventures.

Existing official procurement rules will be strengthened. They already favour black firms: this week the government said it will spend 80 billion rand over 15 years to renovate ports and other transport links. Many contracts will go to construction firms that are at least 26% black-owned.

None of that will especially please investors, but it should give them greater certainty about policy. Earlier this month, diamond tycoon Nicky Oppenheimer, of De Beers, launched his Brenthurst Initiative on black empowerment with a call for closer ties between business and government. Officials have so far ignored his appeal for tax cuts for firms that comply with pro-black targets. But the bill proposes an advisory council headed by Thabo Mbeki, the president, to create “partnerships between organs of state and the private sector”. Passage of the bill should mean no further change of government policy “for ten

to 15 years," says Mr October.

What difference will all this make? Much depends on whether enough competent black firms exist to take up the opportunities the new regulations create. The finance minister, Trevor Manuel, has promised 10 billion rand to finance new black-owned companies. But existing institutions, such as the National Empowerment Fund, have disbursed money inefficiently. When banks have lent money, many black firms have folded; commercial debt is now much harder to raise.

More regulation will encourage businessmen to spend their time finding inventive ways to bend rules, rather than creating wealth. Black "front" firms, that win official contracts and then pass on business to white-run companies, are notoriously hard to stop. The bill proposes codes of conduct that are supposed to prevent this, but is vague about enforcement.

It is hard to be optimistic, though perhaps too soon to write off the new legislation. As with winemaking, it may take decades before the quality of the harvest becomes clear.

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Aquarium manufacture

The joy of fish

Aug 28th 2003 | KAGAWA
From The Economist print edition

Not every Japanese firm fears going under water

WHAT do over 120 big aquariums across the world, from New York and Barcelona to Shanghai and Riyadh, have in common? All use acrylic glass made by Nippura, a Japanese firm with only 60 employees, which has won around three-quarters of the global market for these panels. Nippura made the world's biggest acrylic glass panel for the Okinawa Chura-umi Aquarium, which opened last November. The panel, 8.2m (27 feet) tall and 22.5m wide, provides a stunning view into a 1.7m gallon tank housing such creatures as a manta ray and a whale shark.

The dawning of the age of aquariums

Tetsuhiro Shikiyama founded Nippura, based in Kagawa on the island of Shikoku, in southern Japan, in 1969. Its handful of workers made acrylic boards for store signs, design cases and lamps. Now, it is a rare Japanese example of a successful small firm that, despite prods from banks and even government, has stubbornly chosen to stay small and, so far, unlisted.

Unlike many small firms, it has prospered despite Japan's miserable economy. According to Teikoku Databank, a research company, Nippura's net profits rose from ¥3m ($28,000) in 1996 to ¥117m last year, while sales increased by 50%.

Nippura's chance came in 1970, with a request from a local aquarium in Yashima that wanted large windows instead of small portholes for a better view of the fish in its tank. When Japan's top glass makers rejected the request as too difficult, Mr Shikiyama rose to the challenge.

He had to overcome two problems: how to make large acrylic glass panels thick enough to bear the weight of hundreds of gallons of water, and how to keep them clear. Mr Shikiyama's secret weapon was glue. After years studying and refining the stuff to make design cases and acrylic lamp shades, he created a powerful adhesive that made layers of acrylic glass transparent once it was poured between them.

Yet he soon came up against a typical Japanese business barrier. Seeing his success, big acrylic-fibre suppliers, such as Mitsubishi Rayon, the leader, entered the fray. Nippura struggled against their brand names, financial clout and connections.

Like other start-ups shunned in Japan that later became global leaders (such as Rohm, a specialist

manufacturer of custom-made integrated circuits, and Nidec, the world's biggest producer of precision motors for hard-disk drives), Nippura decided that to survive it had to go abroad and develop fresh, unbiased markets. In 1982, it tendered for work at Monterey Bay Aquarium. Monterey, impressed by the quality of Nippura's work, accepted its bid.

Only then did Mr Shikiyama find that America levied a 36% import tax on acrylic-resin board. His pleas for help to Japan's then Ministry of International Trade and Industry met with indifference. In despair, he went to the American embassy in Tokyo, and thence to America's Commerce Department. He flew to Washington, DC, where he was advised to import the acrylic glass as a product (which he named AquaWall) not as a material, as the tax would drop to 2%, saving Monterey Bay Aquarium almost $1m. He was praised fulsomely at the aquarium's opening ceremony, paving the way for fresh contracts.

A keen inventor, and an enthusiast for diversification, Mr Shikiyama has found other ways to combine glue and plastic. His latest product is a 7.6m seamless acrylic display screen, the first of its kind. Projectors behind the screen (which can be used for home theatres) send images that are captured in the glue and then diffused on to the screen. With one of America's top projector makers already interested, Nippura hopes to start large-scale production in November. Other applications include bullet-proof plastic masks for the police. Layers of glue, specially designed to stick to bullets (which heat up as they drill through plastic), slow them enough to stop them penetrating the mask.

Now the 70-year-old Mr Shikiyama faces a problem common among many ageing, successful, entrepreneurs in Japan: finding a successor. “This company has survived because it is constantly developing new technologies. But I look around, and it is worrying. Even if I promote someone to president, at this rate I'm still going to have to stick around to develop new products.” Yet another use for his glue?

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Face value

Of monkeys and penguins

Aug 28th 2003
From The Economist print edition

Darl McBride, capitalist crusader against the commie horde of Linux users

Get article background

SCO, for anyone who has never heard of the company, is pronounced “skoh”, as in Scopes. Indeed “the SCO case” of 2003 sounds increasingly like the famous Scopes Monkey Trial of 1925, which pitted religious fundamentalists against progressives wanting to teach Darwin alongside the Bible in American classrooms. The SCO case plays the same role in a culture war now consuming the software industry. On one side are the equivalents of the fundamentalists—buttoned-down types clinging to proprietary and closed computer systems. Facing them are today's evolutionists—the pony-tailed set championing collaboration and openness in the form of Linux, an operating system that anybody can download and customise for nothing. The 1925 trial had a monkey as its symbol; the 2003 case has the Linux trademark, a cute penguin.

Leading the fundamentalists is Darl McBride, who was hired as SCO's chief executive a year ago. SCO was called Caldera at the time, and was in a sorry state. It distributed Linux, but was bad at it and made losses. Caldera had, however, recently bought the rights to UNIX, an old operating system, from a Californian firm, Santa Cruz Operations, which in turn had bought them from Novell, which had got them from AT&T. Mr McBride, like several directors at Caldera, has worked for Novell and is a devout Mormon. He seemed a natural choice to rescue the firm.

Immediately, he says, he started thinking about “how to monetise our assets”—ie, Caldera's rights to UNIX. Roughly as apes and humans allegedly have common ancestors, several operating systems can trace their lineage to UNIX, including Linux. Sure enough, says Mr McBride, he soon found “massive and widespread violations” of Caldera's intellectual property in the Linux code. At a more general level (and surprisingly for a Linux distributor), he found the entire free-software trend “communistic”, he says: “We don't get the whole free-lunch thing.”

So Mr McBride prepared for war. He changed Caldera's name to SCO (the initials of the less obscure Santa Cruz Operations), and hired David Boies, a lawyer who had gained an international reputation by representing the American government against Microsoft, and then Al Gore in the hanging-chads episode in Florida in 2000. Then he opened fire. In March, he sued IBM, a huge backer of Linux, for damages of $1 billion, later upping this to $3 billion. In June, he opened a new front by threatening 1,500 companies

that use Linux. In July, he said that licence fees would be $699 per server.

At first, industry gossip was that Mr McBride's strategy was simply to manoeuvre IBM into ending SCO's misery by buying the firm. There were precedents. Before Mr McBride's time, Caldera's owners once profitably sued Microsoft. And in 1998, Mr McBride himself won what he calls a “seven-figure settlement” by suing his employer at the time, IKON Office Solutions (who, he says, had breached contract by urging him to move to an office outside Utah). The Linux battle, however, “is not about suing but about doing the right thing,” Mr McBride insists.

Be that as it may, IBM shows absolutely no inclination to buy SCO. Instead, in August, IBM sued right back, charging that SCO has violated the open-source licence that governs Linux (which SCO, after all, has been distributing) and infringed four of IBM's own UNIX patents. Meanwhile, SCO has become widely hated. In a cruel irony, the boss of Novell, Mr McBride's alma mater, wrote a letter (“Dear Darl”) arguing that SCO is confused about what it owns and challenging SCO to end the “vagueness” of its accusations. SUSE, the biggest European distributor of Linux, has taken SCO to court in Germany. In August, Red Hat, the world's biggest Linux distributor, did the same in America.

What most bothers the open-sourcers is SCO's refusal to reveal which lines of code it considers problematic. “Here are these people who claim we are pirates but refuse to say where and how,” says Bruce Perens, an open-source evangelist. After all, he says, remedying the situation would be “trivially easy”. The Linux “community”—numberless hobby hackers—would simply converge on the code and rewrite it within hours or days.

Mr McBride argues that he cannot reveal the detailed code that SCO lays claim to because to do so would be, in effect, “open-sourcing” it—which to his mind would be capitulating to communism. He will show the code, he adds, to anybody who signs a non-disclosure agreement—but what use would it be for a Linux hacker to see the code but forever shut up about it? On August 18th, Mr McBride seemed to give in a bit by showing a few slides of partially encrypted code in a Las Vegas conference room. Somebody took a photo and showed it to Mr Perens, who found that the lines have been published so many times over the years that a simple Google search will point to them. Legally, the sample seems a non-issue.

Kulturkampf

In terms of impact, however, it is an issue. SCO has caused enough uncertainty that technology consultancies, such as Gartner and Yankee Group, are advising clients to wait and see before adopting Linux. This certainly suits the rest of the fundamentalist camp, above all Microsoft, whose proprietary Windows operating system is Linux's most bitter rival. It has not gone unnoticed that Microsoft is one of the few companies that has actually paid SCO for a Linux licence, even though Microsoft has no use for one. Microsoft and SCO vehemently deny that they are in league, but most open-sourcers assume that the evil Redmond giant is bankrolling a mercenary.

Thus the two sides are digging into their trenches. “We're absolutely not going away, and they're not giving up, so we got a big problem,” says Mr McBride. Like the fundamentalists of 1925, he may end up being a footnote in history; or he may arrest the Linux evolution. As yet, it is too early to tell.

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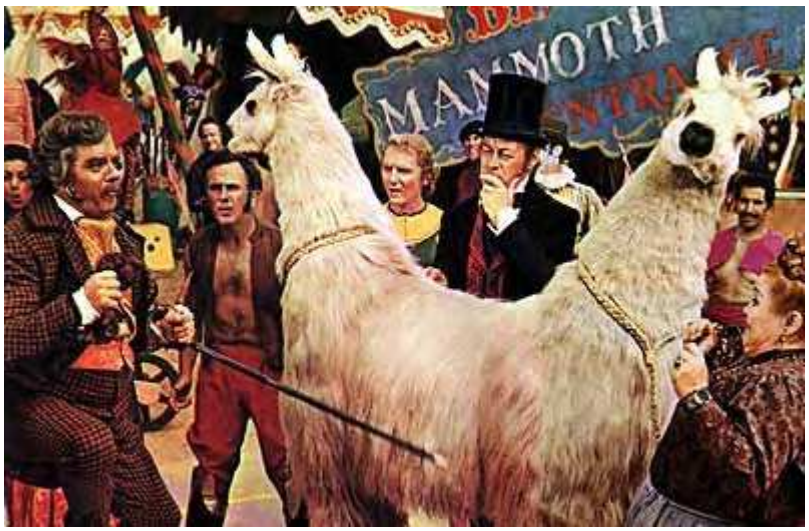
The dollar

Which way next?

Aug 28th 2003
From The Economist print edition

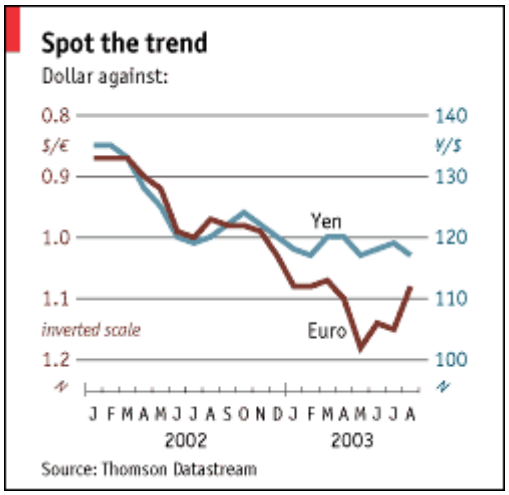
Ronald Grant



The dollar's recent rally is unlikely to last

AFTER travelling one way for most of the past 18 months, the dollar has changed direction. Since late May it has risen by 9% against the euro, brushing a four-month high of $1.08. A few economists are even musing that it might once again reach parity. So were all those predictions of a plunge in the dollar wrong?

The dollar's gyrations have largely been against the euro, while its trade-weighted value has moved by much less. Between early 2002 and this May, the dollar tumbled by 28% against the euro, but lost only 15% in trade-weighted terms. Likewise, since May its trade-weighted value has gained only 4%. Against the yen, it has been steady for most of this year, weakening a little in the past fortnight (see chart).



The main reason for the foreign-exchange markets' change of heart is a lot of data suggesting that America's economy is picking up steam. American GDP grew by an annualised 3.1% in the second quarter of this year, and most forecasters are betting on 3.5-4% in the second half. In contrast, the latest figures from the euro zone are dire. First estimates implied that GDP in the single-currency area was flat in the second quarter. Revisions seem sure to show a contraction: output fell in Germany, France, Italy and the Netherlands. Weaker growth means lower returns on investment, goes the argument, making euro assets less attractive to foreign investors.

The dollar has also been supported by movements in relative bond yields. In May American ten-year Treasury bonds yielded 0.3 percentage points less than their German equivalents. Now they pay a quarter-point more.

Ups and downs

If currencies are mainly being driven by relative growth rates, then why hasn't the dollar fallen by much more against the yen? After all, economists have lately been sounding much more optimistic about Japan's prospects. Earlier this month the forecasters polled monthly by *The Economist* were predicting, on average, growth of only 0.9% both this year and next, compared with 2.3% and 3.4% in America. Now most forecasters expect Japan's GDP to rise by more than 2% this year and at least 1.5% in 2004, while their forecasts for America are little changed.

Yet the yen has held fairly steady against the dollar—mainly because the Bank of Japan has bought almost $80 billion of dollar assets this year in a bid to hold down the yen and thus to support Japan's still fragile recovery. Japan is by far the world's largest holder of American Treasuries, with 12% of the total stock. Moreover, in contrast to previous episodes, the Bank of Japan has not sterilised its latest intervention by selling government securities to mop up the extra yen. Instead it has allowed them to flow through into the money supply.

Some currency forecasters, such as those at Citigroup, reckon that the dollar will stay broadly unchanged against the euro and the yen over the next 12 months. Others think that the dollar is due for another change of direction: economists at HSBC are still betting that the dollar will fall to $1.35 against the euro and to ¥105 by the end of 2004.

The main reason to believe that the dollar will soon resume its downward path is America's huge current-account deficit. A dollar rally driven by stronger American growth is not sustainable in the medium term. America's imports are currently 50% larger than its exports, so the current-account deficit will increase even if imports grow at the same pace as exports. But if, as widely expected, the United States continues to be the locomotive for the world economy over the coming years, then its imports are likely to grow faster than its exports. If the current-account deficit is to be reduced, then either America's growth must slow or the dollar must fall to improve American firms' competitiveness.

Using the Federal Reserve's latest economic forecasts, economists at HSBC estimate that next year America's domestic demand growth will outstrip that of other G7 economies by the widest margin since 1993. The current-account deficit could grow to $800 billion (on an annualised basis), or 7% of GDP, by the end of 2004.

There is a popular view that the current-account deficit does not really matter, but is merely a reflection of America's economic success. Faster growth delivers higher rates of return, which attract portfolio and direct investment from abroad. Thus private-capital inflows are seen as driving the current-account deficit, rather than the other way round.

It is true that in the late 1990s America attracted large capital inflows because of widespread optimism about future rates of return. The trouble is that private investors have lately been less eager to buy still more dollar assets. An analysis by UBS of private-sector institutional investors' dealings in American equities conducted through the bank shows that institutions have been large net sellers this year.

Instead, central banks, mainly in Asia, financed more than half of the current-account deficit in the second quarter of this year. They now hold a bigger proportion of the total stock of Treasuries than at any time in the past quarter-century. In other words, America's deficit is now being financed mainly by foreign governments, not private investors.

If foreign central banks were to lose their appetite for dollars, American bond yields would rise further and the greenback would fall. There has been much talk about Asian central banks diversifying their foreign-exchange reserves from dollars to euros. Also, European central banks have been reducing their reserves, which are mainly in dollars, because they no longer need to hold as much ammunition to defend their currencies.

On top of this, America's current-account deficit—by definition, the gap between domestic saving and investment—has been as much the product of record low saving as of investment opportunities. Stephen Roach, an economist at Morgan Stanley, reckons that American net national saving (ie, private saving net of capital depreciation plus government dis-saving, in the shape of the budget deficit) is likely to turn negative soon for the first time in peacetime history. That would imply that America was asking foreign investors not only to subsidise its investment, but also to foot the bill for its consumption.

It is true that economists have been sounding alarm bells about America's widening current-account deficit for many years, with little sign of their predictions being borne out. Even so, the longer America's current-account deficit continues to widen, the larger the risk of a later, deeper plunge in the dollar. The

recent rally ought to be put into perspective. The last time the dollar fell substantially, in 1985 and 1986, there were three periods when the dollar briefly rallied by 8-10%, just as it has done in recent weeks. The dollar then continued to decline, falling by a total of 50% against the D-mark in just two years. Expect the slide to resume.

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Freddie Mac

Off with another head

Aug 28th 2003
From The Economist print edition

Who is worse: the regulated or the regulator?

Reuters

The departing Parseghian

IN JUNE, Freddie Mac, the smaller of America's two giant quasi-government-guaranteed mortgage companies, parted with its top three bosses because of accounting irregularities which had underestimated the company's profits in previous years by up to $4.5 billion. Leland Brendsel, the chief executive, was replaced by Greg Parseghian, who had run the company's huge portfolio of mortgage-backed securities. On August 23rd, the company's board bowed to pressure from the Office of Federal Housing Enterprise Oversight (OFHEO), its regulator, and got rid of him, too. Mr Parseghian, it turns out, had been involved in some of the accounting shenanigans that had done for his predecessors. Careless, you might think, that neither board nor regulator had checked before.

The travails of Freddie Mac have transfixed Wall Street and Capitol Hill alike. With its bigger sister, Fannie Mae, it plays a crucial role in financial and property markets. In essence, the two control the market in mortgage-backed securities—bundles of mortgages—which is now bigger than the Treasury-bond market. As recent moves have shown, so big are Fannie and Freddie that their hedging activities can have a significant effect on Treasury-bond prices. The pair used to be mainly originators of mortgage-backed securities, but are now their biggest buyers. As their share of the mortgage market has grown, so banking rivals have become jealous, and pundits and politicians have fretted about the systemic risk the two pose. Freddie's problems ensure that discussion of the mortgage companies' future will be prominent in the new congressional session, which starts on September 2nd.

Top topic for discussion will be the probable shift of responsibility for regulating Fannie and Freddie from OFHEO to the Treasury. OFHEO has been a failure. Though it regulates nothing else, it did not spot what Freddie was up to. To add to the impression of OFHEO's toothlessness, the firm is being investigated by other authorities: the Securities and Exchange Commission, America's top securities regulator, and the Justice Department.

To be fair, Armando Falcon, OFHEO's outgoing head, was apparently responsible for ordering Freddie to give Mr Parseghian the boot. OFHEO was presumably not entranced by a report released in late July by Baker Botts, a law firm appointed by the board to see what had gone wrong. Mr Parseghian featured prominently. Moreover, according to the *Washington Post*, Mr Parseghian made $17m from selling Freddie's shares in 2001, when its accounts were being manipulated. Mr Parseghian describes the sale as prudent diversification, which is true, but not necessarily germane. And lawmakers will want to know why the regulator agreed to his appointment in the first place, given his intimate connections with the *ancien régime*.

Changing the regulator will, however, require changing the law, and Fannie and Freddie fear this will lead to other changes. Among their perks are an implicit guarantee from the government, tax breaks, low capital requirements, and reporting-requirement exemptions that are the envy of private-sector rivals.

Constraints, on the other hand, seem to have been few. Freddie's board has certainly not been much of one. The board's calibre has been demonstrated not only in its inability to spot what was going on, but in its panicky reaction when it did. Sacking your top bosses while giving little clue why is scarcely a recipe to calm financial markets. The appointment of Mr Parseghian was equally rushed. He seems to have got the job mainly because he knew lots about a complex market and as an insider was unlikely to rock the

boat.

Congress might want to ponder why the board is so weak. Few on it have much expertise of running big companies. Many have been in the job too long; five of the 16 are political appointments.

But therein lies the dilemma in doing anything about the towering twins. They are not part of government, but they are intimately entwined with it. Nor are they part of the private sector. They should have their perks removed and be forced to act more like private-sector companies. The danger is that they continue as they are: making pots of money for shareholders with the implicit backing of taxpayers. Sadly, thanks to their huge political clout, this is the likeliest outcome.

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Insurance and America's blackout

Still in the dark

Aug 28th 2003
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The uncertain cost to insurers of the great American blackout

TWO weeks on, no one knows exactly what caused such a large, densely populated region of America to be plunged into darkness on August 14th. Yet in order to make any property-insurance claim, a policyholder is required to specify how a loss was caused and why. So businesses and individuals have so far not been pestering their insurers as much as you might have imagined. Hartford, an insurer, received about 290 claims by August 21st, a low number considering how many businesses were affected.

Even so, and although it could take another couple of months to clarify the cause and effect of the blackout, insurers, rating agencies and analysts are already pondering its impact on insurers. Fox-Pitt, Kelton, an investment bank, estimates the insurance bill will be $2 billion-3 billion, the equivalent of a "minor natural disaster". After the terrorist attacks on America on September 11th 2001, insurers paid out perhaps $40 billion.

Standard & Poor's, a rating agency, does not think that blackout-related payouts will be big enough to affect its assessments of the credit-worthiness of insurers. If the blackout was caused by someone's mistake or a breakdown in equipment, insurers would usually have no liability, says S&P. If it is an "Act of God" (such as the lightning that caused a big blackout in New York in 1977), insurers could potentially be held to account.

Although insurers will generally not be liable if negligence is found to have caused the lights to go out, policyholders will nevertheless make claims against them. Insurers are thus preparing to file for "subrogation", their right to recover funds from third parties who caused the claims.

"Blackouts are high frequency, low-severity events that are generally excluded from commercial property-protection policies," says Robert Hartwig of the Insurance Information Institute in New York. Only a few businesses, usually those dealing in perishable goods like meat or ice cream, bought extra power-interruption cover. Duane Reade, for instance, the largest drugstore chain in New York, had such a policy. It thinks blackout losses at its 200-plus shops will be about $3.3m, well above its policy's deductible of $500,000.

Businesses with business-interruption insurance, another sub-species of property cover, are likely to be disappointed. Business-interruption cover tends to kick in only after 24 to 72 hours and most businesses had power restored by noon on August 15th, after the lights went out at 4pm the previous day. Moreover, business-interruption insurance covers only "direct physical loss" to insured property, rather than intangible but much higher losses such as lost business. Private claimants will find it equally hard to get compensation. The contents of people's refrigerators are rarely worth more than $1,000, a common deductible of a homeowner's policy. And making a claim can increase people's future premiums, which makes many think twice about filing one.

One thing might change the equation, says Siddhartha Ghosh of S&P, and that is litigation. Utilities might yet find themselves with lawsuits to defend: if they are covered against such events, they might be able to pass the costs on to their insurers. Lawyers are already looking forward to another field day. "Someone might say that this could be a pretty good class-action lawsuit against utilities," says Michael Brown of Ohrenstein & Brown, a law firm in New York. The same incident caused similar damage to a large number of people, the main prerequisite for such collective litigation. James Quinn of Weil Gotshal & Manges, another law firm, agrees that there is likely to be litigation. Blackout lawsuits rather than claims for blackout insurance might become the real headache for insurers and utilities in the aftermath of America's big power cut.

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China's economy

Ying and yuan

Aug 28th 2003 | HONG KONG
From The Economist print edition

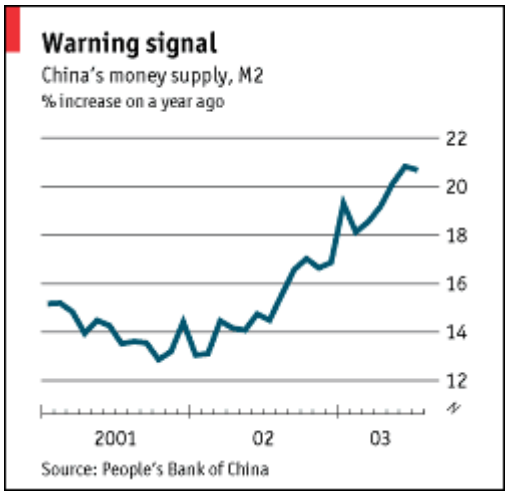
Time to worry about China's strong economy, not just its weak currency

WHEN John Snow visits Beijing on September 2nd and 3rd he will ride into town on a Harley-Davidson—in spirit, if not reality. As America's Treasury secretary promised workers at the motorcycle maker's Milwaukee factory earlier this month, the main purpose of his trip is to talk tough with his hosts about China's currency. In the eyes of America, as well as Japan, South Korea and a host of other nations, an undervalued yuan is unfairly boosting Chinese exports and leading to lost jobs at home.

American (and Japanese) consumers benefit from cheap imports. And China's exports are still largely low-technology goods, not sophisticated stuff (like luxury motorbikes) made by more advanced economies. But such complaints are unlikely to go away. However, Chinese policymakers have more pressing things to worry about than the effects on others of a cheap yuan. For them, a more critical question is how to stop China's domestic economy from overheating without cooling it too quickly. In trying to achieve this, they deserve support, since China is one of the few bright spots at a time of sputtering worldwide economic growth.

America's attempted strong-arm tactics over the exchange rate are proving a nuisance for the Chinese government by encouraging inflows of "hot money" that are a bet that the yuan will soon be revalued. The Chinese currency is currently pegged to the dollar in a narrow range around 8.28. Because the People's Bank of China (PBOC), the central bank, is the sole ultimate buyer of foreign currency, it mops up all such inflows by exchanging them for yuan. Analysts estimate that these purchases account for $20 billion-30 billion of the country's foreign-exchange reserves, which reached a record $356 billion in July.

The broad money supply surged by 21% in the year to July, the fastest rate of growth for five years (see chart), causing the PBOC to give warning of "an excessive increase" in lending. Total loans by financial institutions hit 525 billion yuan, up 71% year on year. Investment in fixed assets was nearly a third higher in the first seven months of 2003 than in the same period of 2002.



A booming money supply can indicate that higher inflation is on the way. That may seem odd in China, which spent much of last year struggling against deflation and where the consumer-price inflation rate is still only 0.5%. For the time being, likelier problems are roaring asset prices and a further increase in China's already enormous bad-debt problems, fuelled by ill-considered lending. The signs are already there. With car sales up 82% in the first half of the year and prices of luxury properties in Shanghai soaring 172% over the same period, it is no wonder that Ma Kai, a senior government official and head of the State Development and Reform Commission, this week spoke of the "inevitability" of more bad loans and "excessive investments and wasteful duplication" in a host of sectors including property, cement, iron and steel.

Policymakers are reacting. Verbal admonishments to rein in lending, especially to property developers, proved ineffective. So on August 23rd the central bank raised its reserve requirements for financial institutions from 6% to 7%, forcing banks to keep more money on deposit with it. The PBOC estimates that this move will drain 150 billion yuan from the banking system, checking lending and thus preventing another build-up of bad loans. In China's financial system, says Nicholas Lardy of the Institute for International Economics in Washington, DC, 31.4% of loans—equivalent to 44.6% of GDP—were non-performing at the end of 2002.

The authorities are proceeding carefully. Last week's measure is less blunt than an increase in interest rates, which would, in any case, have ratcheted up the pressure for a yuan revaluation. And it is, as yet, a far cry from the draconian crackdown on bank lending in 1993, the last time the economy ran out of control.

With luck, this softly-softly approach will pay off, by taking some steam out of China's heady expansion: GDP grew at an annual rate of 8.2% in the first half of this year, compared with an official target of 7%. But it is a terribly difficult balance to maintain. Too much of a slowdown would damage the economy's ability to absorb the millions of workers flooding in from rural areas and being laid off by troubled state-owned enterprises, raising unemployment and eventually threatening social stability and the hold of the Communist Party. On the other hand, if the economy overheats, a new wave of bad loans would further weaken an already groggy financial system.

Andy Xie, an economist at Morgan Stanley, points out that the chronic inability of China's banks to manage cyclical risk means that economic growth in the country tends to create bad debts. So if the current round of tightening succeeds, investors (both foreign and domestic) are likely to become even more enthusiastic about China and pour yet more money into the country. Mr Xie argues that this could trigger an even bigger investment bubble in the run-up to the Beijing Olympics in 2008, when the government will be much more reluctant to clamp down. Unless the financial system is aggressively reformed by then, Mr Xie says that “the stage may be set for a dramatic hard landing after 2008.”

That makes this week's rumours of a huge, impending rescue of the big four state-owned banks sound encouraging, as long as the authorities really mean to deal with the banks' mountain of bad debts this time. It would be the third such rescue since 1998. Mr Snow should perhaps spend less of his trip criticising China's exchange-rate policy and more of it encouraging domestic financial reform. An unstable China is in nobody's interest. The risk that the Middle Kingdom could no longer afford to invest in all those American Treasury bonds is not one that the world's largest economy should take lightly—not even for the sake of its ape-hanger bikers.

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Central bankers' pay

Money's worth

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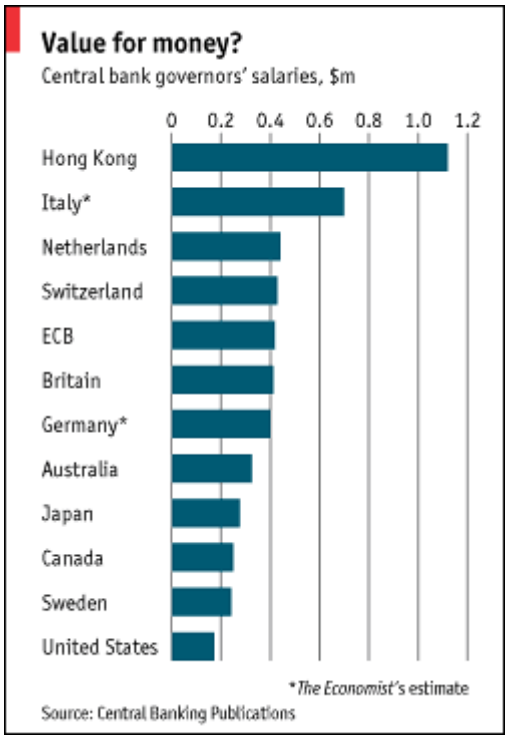
A single, global market for central bankers is years away

OUR Big Mac index suggests that the rate of exchange of euros for dollars—according to the theory of purchasing-power parity—ought to be one-to-one. However, a new, alternative measure (our Big Money index, based on the relative pay of central bankers rather than the price of burgers) implies that the euro should fall to around 45 cents, from its latest high of $1.08.

Alan Greenspan, the world's most important central banker, is one of its lowest paid, on only $172,000 a year. In contrast, says a survey of central bankers' pay by Central Banking Publications, Wim Duisenberg, soon to step down at the European Central Bank, earns a handsome $417,000. Even that is less than the head of the Netherlands' central bank (Mr Duisenberg's old job).



In truth, the Big Money index has a fatal flaw: central bankers are neither tradable nor (like Big Macs) identical goods. Europe's look overpaid. In a global competitive market where consumers can compare prices and shop around, prices in different countries should converge. But we are far from such a market in central bankers. The world's most lavishly paid is Joseph Yam, of the Hong Kong Monetary Authority, who earns 6.5 times as much as Mr Greenspan—although Hong Kong has a currency board backed by dollars, so that all its important monetary decisions are taken by America's Federal Reserve.

Although "transparency" has long been central bankers' buzzword for monetary policy, it often does not apply to their pay. In Germany, France, Italy and Spain central bankers' salaries are still kept secret. Our chart includes estimates of the pay of the governors of the Bank of Italy and the Bundesbank, which are based on a survey by *The Economist* in 1999, updated by average wage inflation. We guess that Antonio Fazio, of the Bank of Italy, now enjoys a generous salary of around $700,000.

Were there a free market in central bankers, the euro area could now afford to buy more than two Greenspans for the price of its current president and still have change left over. But it might need a whole busload to spur Europe's economies to faster growth.

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About sponsorship

Financial regulation in Japan

Sleepy watchdogs

Aug 28th 2003 | TOKYO
From The Economist print edition

Is Japan's regulation of its financial institutions getting any better?

WHEN prosecutors raided Ishikawa Bank, a regional bank in central Japan, after it collapsed in December 2001, they uncovered a trail of illegal loans and cover-ups. Two former presidents, one manager and a former customer have since been indicted, and three trials are under way. The trial of Shigeru Takagi, the bank's president for more than 20 years, who stepped down six months before its collapse, is due to start next month.

Prosecutors have been painting a picture of a desperate bank, whose efforts to hide illegal lending practices and a growing pile of bad loans stretch back more than a decade. Ishikawa allegedly propped up three of its biggest borrowers, by funnelling fresh loans through their subsidiaries to help them meet interest payments. When other companies went bust, leaving Ishikawa with collateral worth a fraction of its original value, its chums returned the favour by buying the collateral at high prices—financed by more loans from Ishikawa. By September 2000, loans to the three groups accounted for 20% of the bank's total.

However, the Ishikawa case is turning out to be a fine example not only of bad banking but also of dozy regulation. Granted, Ishikawa was reprimanded by Japan's financial regulator, the Financial Services Agency (FSA), on several occasions. The FSA did discover, in January 2001, that Ishikawa had made dud loans and that the extra provisioning required would leave the bank with a capital deficit. Yet to avoid being shut down, Ishikawa was able to raise ¥22 billion ($188m) of fresh equity in a hurry—partly from unsuspecting depositors, such as pensioners, who did not even know what a share was, and with misleading prospectuses—while the FSA was checking its books. The money helped Ishikawa raise its capital-adequacy ratio to 4%, as regulations require, and it survived. A second inspection, just months later, found more holes. It then collapsed.

An inspector from the Bank of Japan emerges in a better light. Two years before Ishikawa collapsed, he pointed out that the bank had misclassified a lot of bad loans as good, and needed to set aside an extra ¥12 billion of reserves. This would have pushed its capital below regulatory requirements. When Ishikawa made up evidence that the borrowers could repay part of their debts, the inspector insisted that the bank revise its accounts, using stricter guidelines. Unfortunately, the Bank of Japan has no power to sanction banks. The FSA, which does, took two months to issue a “business-improvement order”. By then Ishikawa had managed to scrape together extra capital.

This was not the first time the regulator had failed to stop blatant fiddling. The collapse of Long-Term Credit Bank and Nippon Credit Bank, two big banks nationalised in 1998, revealed that both had cooked their books. The question is, has the FSA got any better at overseeing Japan's financial institutions in the past couple of years?

Possibly not. Last year, Tokio Marine and Fire, Japan's biggest non-life insurer, said it was reconsidering plans to merge with Asahi Mutual, a life insurer in deepening difficulty. Recently, a leaked memo suggested that Shokichi Takagi, the FSA's top civil servant, put pressure on Tokio Marine to stand by the merger by threatening penalties. Mr Takagi has admitted discussing “administrative punishments” with Tokio Marine, but at the same time denies “pressuring” the insurer. Outsiders may find it hard to spot the difference. In the end, the merger was shelved.

Then a leaked memo from Resona, Japan's fifth-largest bank, suggested that FSA officials indirectly leaned on Resona's auditors in the hope that they would make a lenient assessment of its capital. Resona, which has admitted it was the source of the memo, was eventually injected with ¥2 trillion of public funds in May after it found itself short of capital.

There has been some progress in the form of increased regulatory scrutiny of banks, says Jason Rogers, an analyst at Barclays Capital in Tokyo. But, he says, this has focused on big banks, which account for less than half of total bank lending, and big borrowers, whose share of all loans is less than one-third. Besides, despite stricter “special inspections”, which started in October 2001, banks have not yet broken their habit of making rosy predictions for bad-loan write-offs early in a financial year, only to discover later that their books are worse than they imagined (see chart). That the government injected public funds into Resona without re-inspecting its books, relying on private-sector auditors instead, suggests there is still a lot of regulatory leniency, adds Mr Rogers.

And even the FSA should worry that, according to official figures, banks' total non-performing loans fell only a little in the year to March 2003, despite huge write-offs, and were still higher than they were two years before. That banks increasingly forgive debt, rather than sell it or enforce bankruptcies, is another problem. Mr Rogers estimates that since the beginning of 2002, big banks have extended ¥4 trillion in aid to just 23 big borrowers. This practice props up weak borrowers while allowing banks to reclassify their remaining debt as less bad. In many cases, it also merely postpones the inevitable.

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Economics focus

To have and to hold

Aug 28th 2003
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Can people learn to be as rational as economic theory supposes?

FOR several years now, a battle has been raging among economists. On one side are the traditional, "neoclassical" theorists, who believe that people should be thought of as rational economic agents. On the other are the upstart "behaviouralists", who do not accept that people always get their complicated sums right (maximising utility subject to a budget constraint, and all that), or even act as if they do.

A top behaviouralist, Daniel Kahneman, won last year's Nobel prize in economics for pointing out the differences between *Homo sapiens* and *H. economicus*. Real people tend to judge their well-being relative to others, not in absolute terms; their actions depend on the way choices are presented; they fear loss more than they crave gain. Such insights form the core of what is known as "prospect theory". Some economists think that prospect theory can overthrow two centuries of neoclassical thought. Others say that it only gives credence to the idea that people repeatedly make daft mistakes. Is there a way of settling the dispute?

Some recent work should at least help. It explores the "endowment effect", one of the chief tenets of prospect theory. Put simply, this means that people place an extra value on things they already own. Think of a favourite sweater, or your house: would you swap either for something of equal market value? Over the past decade, prospect theorists have found support for the endowment effect in scores of experiments. In one of the best-known, researchers at Cornell University began by giving university students either a coffee mug or a chocolate bar, each with identical market values. First the experimenters confirmed that roughly half the students preferred each good. After the goodies were handed out, they let the students trade: those who had wanted mugs but got chocolate (or vice versa) could swap.

With barely 10% of students opting to trade, the endowment effect seemed established (you would expect 50% to have swapped, given the random allocation of gifts). Even after a short time with things of little value, ownership had overwhelmed the students' prior tastes. Dozens of other tests have produced similar results, and have produced a wave of criticism of neoclassical economics.

The criticism has been taken seriously, as it should be: if the endowment effect is real, people's economic decisions are fundamentally different from what economists have assumed. The implications of this are profound. To take one example, the Coase theorem, which argues that initial allocations of wealth do not matter as long as markets allow people to trade their stakes—the rationale for government auctions of everything from radio spectrum to mobile-telephone licences—would no longer be valid. To take another, although economists have shown that you need only a few sharp traders for prices in financial (and other) markets to become efficient, the volume of trade with an endowment effect will be below what it might be without one.

John List, an economist at the University of Maryland, recently tested the existence of the endowment effect in a new way. Instead of using callow students, he went to a real market with traders of varying degrees of experience: a sports-card exchange, one of many such, where Americans trade pictures of their favourite athletes. There, traders dealing in hundreds of cards mix with browsers who might buy only one.

In one experiment*, Mr List took aside a group of card fans and gave them an assortment of other, less familiar, sporting memorabilia, such as autographs, badges and so forth. He then let them trade. The less card-trading experience a subject had, the less likely he was to trade, even when a good deal was on offer. More experienced traders were less prone to the endowment effect, and traded as keenly as

neoclassical theory predicts.

News from the swaps market

Although consistent with an endowment effect, this was not proof of one. Novice traders could simply be wary of dealing with those who might get the better of them. To rule this out, Mr List concocted another experiment along the lines of the Cornell study†. He gave a similar cross-section of fans chocolate and coffee mugs, whose values are well-known even to the most inexperienced bargainers, and let them trade. Again, Mr List found evidence for an endowment effect—but also that long experience as a card trader spilled over into his experimental mug-and-chocolate market. Only novices, like the students in earlier experiments, tended to be swayed by what they had been given.

This implies that prospect theory can capture the behaviour of inexperienced people, of which the world has many in all sorts of markets. But experienced buyers or sellers in well-established markets get over their psychological “flaws”. They can even transfer their trading skills from one market to another. The neoclassicals, it seems, have scored a point.

Mr List notes that sellers seem to learn how to trade faster than buyers do. What might this imply for, say, stockmarkets? The green investors who discovered shares only when markets boomed in the 1990s had been slower than others to part with their cash and join in. But once in, were they afflicted by the endowment effect? Owning Amazon shares bought for $400 each made it hard to sell until much higher prices came along (they didn't). Sophisticated traders, especially the sell sides of investment banks, had no such baggage, and sold. The bear market, however, should have proved as good a learning experience as novice investors are likely to get.

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* “Does Market Experience Eliminate Market Anomalies?”, *Quarterly Journal of Economics*, February 2003

{†} “Neoclassical Theory versus Prospect Theory: Evidence from the Marketplace”. NBER Working Paper no. 9736

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The future of NASA

Lost in space

Aug 28th 2003 | WASHINGTON, DC
From The Economist print edition

Those investigating the fate of Columbia say they know the causes of the accident. This will be no comfort to those wanting to improve human access to space

AP

Get article background

AUGUST 26th saw the publication of a report that could become a milestone in the history of human space flight. After seven months of deliberation, and having read more than 30,000 documents, conducted 200 formal interviews and dispatched 25,000 people to search for debris, the board investigating the loss of the space shuttle *Columbia* revealed the reasons for the accident, and its recommendations for preventing another one.

The main findings of the report were well trailed. Since the “Oh my God!” moment when a test blew a large hole into a sample of a shuttle's wing, few observers have doubted that the accident was caused by a piece of insulating foam. Shortly after take-off this foam became detached, struck *Columbia*'s left wing, and breached the craft's heat shielding. The friction of re-entry then melted the wing.

At first sight, one of the more troubling aspects of the report is that it seems that a rescue mission involving another shuttle, *Atlantis*, might have been feasible had the damage caused by the foam been recognised as dangerous. The mission's managers, though, failed to recognise that danger, and so the question of mounting a rescue was never raised. Scott Hubbard, a board member and director of NASA's Ames Research Centre, says the best estimate of the actual damage is that the hole in the wing was 25cm (ten inches) across, plus or minus 50%. That could probably have been detected by pointing the camera of a military satellite at *Columbia*, if anyone had thought to do so. All told, there were at least eight missed opportunities for discovering the damage, according to the board. But at every juncture the programme's structure, processes and managers resisted new information.

That sounds damning. Yet those who smugly ask, “why were safety warnings ignored?” might care to pick through malfunction reports from the previous 112 shuttle flights to see the benefits that hindsight brings. In them, they would find mention of half-a-dozen crucial pieces of hardware that have repeatedly faltered or failed, and have defied attempts at repair.

The plan that fell to Earth

As an experimental vehicle, the shuttle is a collection of accidents waiting to happen. There is no obvious reason why it was foam debris that eventually caused a fatal accident, rather than any of these other problems. So it is not enough, says Harold Gehman, a retired admiral who acted as the board's chairman, to identify the widget that failed, fire the people closest to it, then fix the widget. For it is not merely the widget and its managers that are to blame. Instead, there is a need to look at NASA's whole culture and organisation.

That observation, too, is no surprise. But having it in black and white may, at last, cause something to be done.

According to John Logsdon, another member of the board, and also director of the Space Policy Institute

at George Washington University in Washington, DC, NASA's organisational problems include a 40% budget cut over the past decade; the assumption that the shuttle was an operational (rather than an experimental) vehicle; uncertainty over the future of the programme; pressures to finish construction of the international space station (the servicing of which is the shuttle programme's current excuse for continuing); and the absence of a robust safety programme.

The heart of the problem, though, is that the shuttle is a bad design, full of compromises, too risky, hopelessly optimistic and trying to be too many things to too many people. In order to gain approval for its construction, promises were made that could never have been kept. It is true that, as the board recommend, a good organisational structure is crucial for operating high-risk technologies. But this only becomes a real issue if there is an overly complex design to begin with. As Jeffrey Bell, a planetary scientist at the University of Hawaii, points out, the crews of several Russian *Soyuz* craft have emerged “bruised but alive” from mishaps that would have killed them if they had been in a “flying Ming vase” such as a shuttle.

And things are unlikely to get any better. According to the board's analysis, the shuttle will need complete recertification of all its components and systems in 2010, to show that it is still safe to fly. There is no reason to assume that this can be done at an acceptable cost. And another question, one that the board failed to address, is what happens when the next shuttle fails. As Roger Pielke, the director of the Centre for Science and Technology Policy Research at the University of Colorado, points out, it is more probable than not that such a failure will occur before the space station is retired in a decade or two. That would leave two shuttles from the original fleet of five, and since one is always in maintenance, continuing to service the station would be hard.

In one of its observations, however, the board is being naive. Dr Logsdon and his colleagues lament the shuttle's “fixed budget”. But no organisation can defy economic gravity and operate without budgetary constraints. In any case, according to Dr Pielke, throughout the shuttle programme's 31-year history, America's Congress has provided NASA with more shuttle funding than the agency has requested. If $500m per launch is not enough to ensure safety, what is? The Russians manage to launch people at a mere $60m a pop, and have fewer accidents to boot.

If America is to continue to be involved in manned spaceflight, a radical rethink is clearly necessary. And such a rethink needs to go beyond the designs for a second-generation space plane that NASA is touting around. It needs to look at the whole question of who provides lifts into orbit and how they are paid for.

To infinity, and beyond

Fortunately, there are signs that such a rethink is happening. The guts of a new regime would involve contracting out the more routine tasks of lifting stuff into “near space” (meaning anywhere closer than the moon), while allowing NASA to fulfil its proper mandate of exploring the unknown. As Rick Tumlinson, the founder of a lobby group called the Space Frontier Foundation, puts it, “NASA should learn to be a spaceflight customer, and stop trying to be a provider and a socialist monopoly at that.” And that requires opening near space to private enterprise. Even if NASA cannot be persuaded to trust its astronauts to the private sector, there is a compelling case that it should offer open tenders to deliver cargo to the space station.

The chief barrier to private-enterprise spaceflight, it has often been argued, is that space is so inherently expensive that only governments can afford it. In particular, the cost of developing and building reliable rocket motors has been thought prohibitive. However XCOR Aerospace, an experimental rocket-development company based in Mojave, California, begs to differ. The firm, according to its chief engineer, Dan DeLong, has designed and built four generations of reliable rocket engines for a vehicle that cost $500,000. They are, he admits, very small, but the company's plan is to “make it cheap first, then make it more capable”. According to Dr DeLong, one of NASA's problems is that its design philosophy is the wrong way round. First, it builds something huge and complex, such as the shuttle. Then it tries to make it cheaper.

Other approaches are also possible. Dr Tumlinson points to two. One is the alt.space movement, which consists of people funding attempts to get into space using money made in the information-technology boom. The other is the X-prize, $10m put up by a foundation inspired by the aviation prizes of the early 20th century, such as the Orteig prize that persuaded Charles Lindbergh to risk his life on the first solo flight across the Atlantic. The winner of the X-prize will be the individual or team that “privately finances, builds and launches a spaceship, able to carry three people to an altitude of 100km, returns safely to

Earth, and repeats the launch with the same ship within 2 weeks”.

Whichever of these approaches works, there seems little hope that NASA, left to itself, will get it right next time. Of the mooted interim replacement to the shuttle, Dr Bell says that the basic concept “is so stupid that every knowledgeable person involved in it must be perfectly aware that it will never fly”.

Of course, bureaucracies always try to preserve themselves. But before Congress sits down to consider the board's report, it might mull over the fact that for decades politicians have also failed to root out entrenched interests in the agency. Indeed, they have often used NASA to fund their own. Of course, opening things up to the market would spoil that little game, too. Truly, NASA is lost in space.

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Brazil's space programme

The other space accident

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Brazil, too, has suffered a setback to its space programme

NASA is not the only space agency to have fatal accidents, nor are astronauts the only casualties. On August 22nd a Brazilian rocket being prepared for launch exploded on its pad, killing 21 people on the ground.

Reuters

Alcântara, which lies 2° south of the equator in north-eastern Brazil, is a near-perfect place from which to launch satellites. The Earth's rotation means that the equator is moving at almost 1,700kph, more than 10% of the velocity needed to get into orbit. Launching from near the equator thus saves fuel.

Brazil hopes to use the location to claim part of the $2 billion-a-year business of launching satellites. But the country's space programme, dreamed up by its military government in the 1960s, has suffered from neglect and under-funding. Its VLS-1 satellite-launching rocket, in development since 1979, failed on its first two launches at Alcântara. It was being prepared for a third when it exploded. Early suspicions focused on the rocket's ignition system, which apparently went off prematurely. As with the loss of *Columbia*, though, investigators will no doubt want to probe the programme's deeper failings.

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About sponsorship

Computer viruses

Re: That movie

Aug 28th 2003
From The Economist print edition

The latest computer scourges, and their consequences

Get article background

THOSE who use the internet are unlikely to be seeing the headline above for the first time. In late August, a computer virus known as SoBig.F sent out millions of e-mails with that and other vague but enticing subject lines. Those unfortunates who opened the attachment to these e-mails will have had their machines infected by the virus, which will then have used their machines as platforms to spread the epidemic further.

At the peak of the epidemic, on August 19th, SoBig.F was responsible for one out of every 16 e-mails that crossed the net. A few days beforehand, a worm called Blaster had taken control of hundreds of thousands of computers. (A worm is a program that is similar to a virus, but does not require a user to open anything in order for it to propagate.) Blaster's purpose was to mount a so-called distributed denial-of-service (DDOS) attack on a Microsoft website. A DDOS attack works by overwhelming the computer controlling a particular network by bombarding it with messages. Microsoft was able to deal with the threat by changing the address of the website before the scheduled attack time.

SoBig.F's ultimate objective remains unknown—infected computers were meant to download a program from one of 20 pre-selected computers on the internet. However, pre-emptive action by America's Federal Bureau of Investigation prevented the author of the virus from loading his instructions on to those computers in the first place.

Though both of these programs fell short of the apparent objectives of their authors, they still caused damage. For instance, they forced the shutdown of a number of computer networks, including the one used by the *New York Times* newsroom, and the one organising trains operated by CSX, a freight company on America's east coast. Computer scientists expect that it is only a matter of time before a truly devastating virus is unleashed.

So big indeed

SoBig.F was the more visible of the two recent waves of infection because it propagated itself by e-mail, meaning that victims noticed what was going on. SoBig.F was so effective that it caused substantial disruption even to those protected by anti-virus software. That was because so many copies of the virus spread (some 500,000 computers were infected) that many machines were overwhelmed by messages from their own anti-virus software. On top of that, one common counter-measure backfired, increasing traffic still further. Anti-virus software often bounces a warning back to the sender of an infected e-mail, saying that the e-mail in question cannot be delivered because it contains a virus. SoBig.F was able to spoof this system by “harvesting” e-mail addresses from the hard disks of infected computers. Some of these addresses were then sent infected e-mails that had been doctored to look as though they had come from other harvested addresses. The latter were thus sent warnings, even though their machines may not have been infected.

Kevin Haley of Symantec, a firm that makes anti-virus software, thinks that one reason SoBig.F was so much more effective than other viruses that work this way is because it was better at searching hard-drives for addresses. Brian King, of CERT, an internet-security centre at Carnegie-Mellon University in Pittsburgh, notes that, unlike its precursors, SoBig.F was capable of “multi-threading”: it could send multiple e-mails simultaneously, allowing it to dispatch thousands in minutes.

Worming into the system

Blaster worked by creating a “buffer overrun in the remote procedure call”. In English, that means it attacked a piece of software used by Microsoft's Windows operating system to allow one computer to control another. It did so by causing that software to use too much memory.

Most worms work by exploiting weaknesses in an operating system, but whoever wrote Blaster had a particularly refined sense of humour, since the website under attack was the one from which users could obtain a program to fix the very weakness in Windows that the worm itself was exploiting.

One way to deal with a wicked worm like Blaster is to design a fairy godmother worm that goes around repairing vulnerable machines automatically. In the case of Blaster someone seems to have tried exactly that with a program called Welchi. However, according to Mr Haley, Welchi has caused almost as many problems as Blaster itself, by overwhelming networks with “pings”—signals that checked for the presence of other computers.

Fortunately, as Nicholas Weaver of the University of California, Berkeley has pointed out, the algorithms that worms use to spread themselves are not particularly efficient. Blaster, after infecting a computer, searched at random for others to infect. A clever worm, says Mr Weaver, would start with a list of 10,000 or so vulnerable computers. This could be assembled surreptitiously by several months of discreet probing over the internet. Such a worm, which Mr Weaver dubs a “Warhol worm” after Andy Warhol's famous aphorism about fame, could infect all those vulnerable computers in about 15 minutes, giving it a huge head start. If a Warhol worm were to be released, by the time anti-virus engineers came up with a patch to protect the vulnerability it exploited, it would be too late. And if the worm had a truly malicious payload that, say, deleted files pell-mell, the damage would dwarf that caused by recent viruses.

Legal affairs

Who, though, bears responsibility for such outbreaks? The author of a virus certainly does, and is subject to harsh criminal penalties in most countries. However, what about intermediaries who unknowingly transmit the virus?

In the early days of the internet, the “packets” that encapsulate data in transit were handled without concern for what was within. However, recent efforts to enforce copyright law have been imposing new sorts of responsibilities on organisations that are connected to the internet.

Internet service providers enjoy a “safe harbour” under American and European law that gives them exemptions from liabilities they might otherwise incur, so they are probably safe. And Jonathan Zittrain of the Harvard Law School's Berkman Centre for Internet and Society reckons that software companies are safe, too, for the moment. Their products are, he says, so full of bugs that any regime to make them pay for the consequences of failed software would bankrupt them—an outcome that few seek. However, his colleague John Palfrey says that it would not surprise him if a lawsuit were brought against an organisation which unknowingly but negligently transmitted a virus. And if you think virus writers are scary, you have clearly never met a tort lawyer.

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About sponsorship

Jean-Paul Sartre

Hands across a century

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Magnum

Jean-Paul Sartre could be wordy, misguided and infuriating. But, argues a bold biography, now translated into English, no one could say he wasn't serious

MANY thinkers contributed more to 20th-century philosophy than Jean-Paul Sartre, who died in 1980. Many authors wrote better novels or plays. Politically, few changed positions as often as he did during his 30-year editorship of *Les Temps Modernes*, post-war France's leading left-wing review. Today he seems a dim or derided figure. Yet his achievements were real.

For all his pride in raw output, once calculated at 20 published pages a day over his working life, Sartre's role as gadfly and nay-sayer is what stood out. Politics for him meant neither policy nor persuasion, but taking stands. Flaying out at compromise and hypocrisy, he played David to the Goliaths who won—Charles de Gaulle, liberalism, America, the West. Dismal odds seemed to attract him. His intellectual projects were unmanageably vast. He regarded not finishing almost as a mark of success; in his 60s he dashed off 2,300 pages of a study of Gustave Flaubert before declaring it incomplete. He boasted of never growing up. Indifferent to honours, in 1964 he turned down a Nobel prize.

Sartre was, in short, a character. He had something of Astérix or Tintin in him. The English, who love characters, might have taken him to their hearts had he not hated pets, loathed country walks—and been French.

Sartre:The Philosopher of the Twentieth Century
By Bernard-Henri Lévy. Translated by Andrew Brown

Polity Press; 544 pages; $29.95 and £25

Buy it at
Amazon.com
Amazon.co.uk

Convinced of his ugliness from an early age, he ignored and abused his body, to no obvious ill effect. He had many mistresses and one enduring love, Simone de Beauvoir, a novelist and thinker who shared his life and work as friend, lover, nurse, judge and equal, though never wife. Near-blind from youth in one eye, he was otherwise robust. He needed to be. His daily intake included 40 Boyard cigarettes, litres of alcohol and coffee, and a dozen corydrane tablets, a mixture of amphetamine and aspirin then available over the counter (the recommended dose was two).

Sartre's real drug, however, was writing, as Bernard-Henri Lévy nicely remarks. This study, which came out in French three years ago and now in English, is a homage from a critical admirer. It has obvious faults. A one-time Marxist turned darling of the right, Mr Lévy is rather an intellectual dandy. Like his

hero, he has a theory or clever remark on everything, including Islamic fundamentalism, which he explored in a recent book, “Qui a Tué Daniel Pearl?” Better conventional biographies are Ronald Hayman's “Writing Against” (1986) and Annie Cohen-Solal's “Sartre” (1987). Mr Lévy's stylistic tics can be maddening. Sartre somewhere complains of the weakness of Flaubert's verbs; Mr Lévy frequently dispenses with verbs altogether. Against those defects, the book's enthusiasm is infectious. It delves sympathetically into Sartre's ideas and makes a strong case for their importance.

Sartre's thought is hard to follow, partly because he refused to re-read or correct. Fond of one-liners, he said his best book was always the one he was about to write. Behind that quip lay an idea that coloured his whole philosophy: at any moment, we are free to make of ourselves what we wish. To deny this freedom—by accepting the stereotypes of others or by treating ourselves as victims of circumstance—was self-deception or bad faith. This was the core of Sartre's existentialism. In “Being and Nothingness” (1943), he tried to embed that moral intuition in a version of idealism—put crudely, there is no world without a mind to experience it.

The book owed much, including its prolixity, to Martin Heidegger, a German contemporary of Nazi sympathies. Both tried to say general things about the character of human thought and experience without the distortions of misleading philosophy. Both, alas, soon gave in to tendentious theorising of their own. Sartre's book holds up better than Heidegger's “Being and Time” (1927), perhaps because as a novelist he was subtler about human experience.

By the late 1940s, Sartre gave up teaching and lived off his writing. His most philosophical novel, “Nausea” (1938), sold more than 1.6m copies in his lifetime, his play about political responsibility, “Dirty Hands” (1948), almost 2m. Then, after failing to fit his views on freedom into a highly personalised Marxism, he gave up philosophy for politics.

Sartre could be perversely wrong: more pacifist than anti-fascist in the 1930s; pro-Soviet in the early 1950s; pro-Castro in 1960 and Maoist after 1968. But he could also be shiningly right: condemning the Soviet invasion of Hungary in 1956; calling for an Algerian Algeria (anti-independence terrorists twice bombed his apartment in Paris); supporting Israel in 1967; and campaigning for the boat people fleeing communist Vietnam in 1975.

Was there a pattern? Mr Lévy thinks so. Sartre was a lonely and fatherless child, raised by a doting mother and a professorial grandfather. One of a kind, self-involved and living in his head, he longed for comradeship. His months in a German prisoner-of-war camp in 1940, he often said, were the happiest in his life. This romance with imaginary crowds led him into totalitarian foolishness. Against that was his distrust of authority and of the violence it can always call on. “Commanding or obeying, it's all the same,” he wrote in his marvellous memoir of childhood, “Words” (1963). Some of his bravest campaigns were civil-rights defences of radicals pursued by the French state. Sartre never got the urges to belong and to be free into balance. He scoffed at the thought that you could: the thing for him was to keep both going, and see where they led.

Sartre:The Philosopher of the Twentieth Century.
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New fiction

The fire this time

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MICHAEL IGNATIEFF is a professor of human rights at Harvard University and the author of an acclaimed biography of Isaiah Berlin. His first novel, “Scar Tissue”, was shortlisted for the Booker prize in 1993. Expectations are bound to be high for “Charlie Johnson in the Flames”.

Mr Ignatieff starts the novel as he means to continue: at a gallop. The scene is Yugoslavia, some time in the early 1990s. Charlie Johnson is a veteran war reporter. Together with his jaded partner, a Polish cameraman called Jacek, and a local guide, Charlie undertakes a risky midnight mission to document rebel activity on the Kosovo-Serb border. The story could provide him with a terrific scoop.

In the event, he gets far more than just his story. Troops arrive and he watches as a woman is doused in petrol and casually set alight by an officer. Breaking cover, Charlie knocks the woman to the ground and puts out the flames with his bare hands. He rushes the horribly burnt woman to an American military hospital, but she dies before surgeons can help her.

Charlie Johnson in the Flames
By Michael Ignatieff

Chatto & Windus; 164 pages; £12.99.

Buy it at
Amazon.com
Amazon.co.uk

The experience affects Charlie profoundly. It pierces his rhino's hide like nothing in his long career has done before. That moment of terrible intimacy with a dying woman, burning in his arms, penetrates the “small space he kept between himself and the entire world”. He becomes fixated on the idea of vengeance.

At which point the novel rather clunkily changes gear. Obsessed with somehow taking out the bad guy, Charlie becomes an increasingly unsympathetic, almost buffoonish, character, and the writing becomes sloppier. The unfussy but evocative language of the first few chapters gives way to much more formulaic hard-man stuff as Charlie uses his underground contacts to track down the woman's killer.

On one level, “Charlie Johnson in the Flames” is a gripping thriller. It is easy to be swept along by the fast action, and to be sucked into Charlie's roguish world of sleazy hotels, battle-scarred hacks and shady fixers. On another level, the questions the novel raises—about the nature of evil and about the role of observer in violent conflict—are both serious and fascinating. But it is hard not to feel that Mr Ignatieff has missed a trick here. The fine writing and potential for interesting development that the novel's early sections promise burn out all too quickly.

Charlie Johnson in the Flames.
By Michael Ignatieff.
Chatto & Windus; 164 pages; £12.99.
To be published in America by Grove Press in October

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About sponsorship

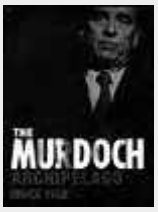
Rupert Murdoch

A man, a plan

Aug 28th 2003
From The Economist print edition

RUPERT MURDOCH is running as hard as when he first succeeded to his patrimony—a single afternoon newspaper in Adelaide—at the age of 21. Today, just over half a century on, his empire generates $17 billion a year in revenues and includes film studios, television networks, 175 newspapers and 15,000 people. A huge new dominion awaits him in the form of DirecTV, America's biggest satellite-TV operation with more than 11m viewers, which he is poised to acquire from the Hughes Electronics division of General Motors. Mr Murdoch likes risk and opportunity; to him, media or entertainment businesses are fruit ripe for plucking.

The Murdoch Archipelago
By Bruce Page



Simon & Schuster; 592 pages; £20 (hardback), £10.99 (paperback)

Buy it at
Amazon.co.uk

That this expansion has grown out of a virtually non-existent corporate strategy continues to baffle business analysts as much as it does Mr Murdoch's biographers, of whom Bruce Page is just the latest. Mr Page, a well known investigative reporter on the *Sunday Times* in the 1970s, has laboured for some years to locate Mr Murdoch's journey within the very different political, cultural and sociological contexts of Australia, Britain and America and develop his own "Theory of Rupert".

Briefly put, the theory proposes that Mr Murdoch learnt from his father how to use intimidation and flattery to gain political favours. Mr Page argues that investigations of government activity and state institutions rarely occur in Murdoch newspapers in case they prejudice a relationship with a favoured politician (the appeasement of Margaret Thatcher during the Westland affair is one example) and that the NewsCorp culture uses journalism to support Mr Murdoch's commercial interests (again, the cancellation of Chris Patten's memoirs by HarperCollins, a Murdoch-owned publisher, and the consequent official warmth for the friendly Star TV in China are two notable examples).

The book offers little new information; its real strength is in the detail that Mr Page has threaded together—across Australia, Britain, America and China—of the 90 years that have elapsed since Keith Murdoch, Rupert's father, first made his name by cribbing from another journalist his so-called exposé of the allied operations at Gallipoli during the first world war.

Sadly, the book is often too dense, which makes it difficult to read, although Mr Page does undermine some widely accepted myths about Murdoch the mogul. Mr Murdoch is not always obsessed with money or profit; many of his most spectacular adventures, including the *New York Post*, Star TV, Sky Television and the *Times*, have occasionally yielded no profit at all. He is also no enemy of the establishment, but a scion of the Australian version and a ready partner if the terms are right of political establishments elsewhere.

At the end of the book, and despite his efforts to the contrary, Mr Page almost concedes that there may be no adequate theory to explain Mr Murdoch or his empire. NewsCorp may be the sprawling edifice of a hyperactive and authoritarian personality who has no overall objective other than constant activity and the wielding of power. That's probably about right. But as an explanation, it's neither as interesting nor as dastardly as one might wish.

The Murdoch Archipelago.
By Bruce Page.
Simon & Schuster; 592 pages; £20 (hardback), £10.99 (paperback)

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Sierra Leone

The devils dancing on the water

Aug 28th 2003
From The Economist print edition

IMAGINE drunken gunmen hammering on your door in the dead of night. If they are your government's men, they may only rape your wife and daughters. If they are the rebels, they will also hack off their limbs, cut out your tongue, and burn your house down. Outside, a child is screaming: “The cut-hands men are here.”

This nightmare was a daily reality in Sierra Leone until last year, when one of Africa's most vicious wars was ended by Britain's intervention. Daniel Bergner's “In the Land of Magic Soldiers” is an early effort to recount and explain the horror: hopefully, there are better to come.

An American journalist, Mr Bergner considers colonial racism to be the key to all Sierra Leone's problems. Britain's intervention, he fears, is an attempt to reaffirm white supremacy. Thankfully, the Sierra Leoneans he meets are more sensible. When invited by Mr Bergner to rage against their former colonial master, they tend to smile, and occasionally express their wish to be re-colonised, which must have made the author shake his head in disbelief.

Peter Griffiths's compelling “The Economist's Tale: A Consultant Encounters Hunger and the World Bank” does not mention Sierra Leone's war, but is much more revealing of its causes. An independent consultant, Mr Griffiths was sent to Sierra Leone by the World Bank shortly before the war began. Ostensibly, he had an open brief to report on the country's food situation. In fact, as he soon discovered, the big-wigs in Washington had already forced Sierra Leone's government to agree to stop importing rice, thus disbanding a corrupt state monopoly overnight. Mr Griffiths's mission was to justify this pre-ordained policy.

Though committed to market principles, Mr Griffiths was aghast. His research suggested that the government imported half the country's staple food, and that, because of political instability and a plummeting economy, no businessmen would take on the job in the government's place.

AP

Came the cut-hands men

Mr Griffiths concludes that the World Bank's policy will reap famine. True, it may eventually boost the income of local producers and retailers as intended; but not before most of them have starved to death.

Written in diary form, “The Economist's Tale” is a lightly fictionalised account (to avoid libel, he has made up composite characters and changed names) of Mr Griffiths's struggle to make the government defy the World Bank, preferably without getting himself sacked. Sparkling in his role as a conscience-struck double agent, he fights intrigue and physical danger to triumph in the end. Along the way, he brilliantly elucidates the relationship between incompetence and corruption, both in Sierra Leone and the aid industry at large. The difference is that whereas most Sierra Leoneans have no

In the Land of Magic Soldiers: A Story of White and Black in West Africa
By Daniel Bergner

Farrar, Straus and Giroux; 224 pages; $22

Buy it at
Amazon.com
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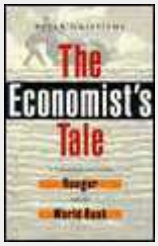
The Economist's Tale: A Consultant Encounters Hunger and the World Bank
By Peter Griffiths



Zed Books; 278 pages; $69.95 and $25 (paperback);

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choice but to lie or steal for personal advancement, most development economists and aid workers do have a choice. Whether they choose to exercise it is another matter.

In the Land of Magic Soldiers: A Story of White and Black in West Africa.
By Daniel Bergner.
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About sponsorship

Children's literature

Quest fulfilled

Aug 28th 2003
From The Economist print edition

Justice is delayed, but not denied, after a neglected classic is pirated in America

MEMORY loss and lawlessness are the two themes of “The Great and Terrible Quest”, a gripping children's historical novel set in medieval Italy. “I have forgotten” is the repeated, agonised groan of brain-damaged Huon, a mysterious nobleman-turned-minstrel. What he has forgotten are the details of his great quest: to find the ten-year-old orphan Trad, and help him reclaim his kingdom from the cruel and corrupt Lords Regent. Only when it is almost accomplished does Huon remember—and Trad realise—the real nature of the adventure.

How odd, though, that the same themes of forgetfulness and illegality should overshadow the fortunes of the book itself. Published in Britain in 1967, “The Great and Terrible Quest” is extremely hard to find. Databases list it as out of print. No copy survives in the British public library system. Used ones are scarce and pricey—one was on sale recently on the internet for $250.

Yet after much digging, your reviewer did come across a mysterious facsimile edition, unlisted by most distributors, first published in 1998 by an obscure Colorado-based company named Sonlight Curriculum. A business with a strong religious flavour, Sonlight specialises in providing teaching materials for missionaries wanting to educate their children at home, principally by providing them with cheap editions of improving works of literature.

And that would have been that, had it not been for the puzzling wording of the details on the flyleaf. “Current copyright owner is unknown”, it stated. “Permission to reprint this book was sought from Holt, Rinehart and Winston”—the publishers of the first American edition in 1967.

It was an odd use of the passive. Whether permission had actually been granted was not said. Also strange was that Sonlight would not say if they had made any effort to contact the author, Margaret Lovett. Born in 1910, she was quite possibly still alive. Confirming that took just a phone call by this reviewer to St Hugh's College, Oxford, where she had—according to the brief biography printed in the book—studied some 60 years ago. The alumnus office there forwarded a letter; Miss Lovett, a retired teacher, replied by return post. She was delighted to hear that the book—her own favourite—was in print again, albeit rather bemused to have heard nothing of it.

So how many copies had Sonlight sold? And what about Miss Lovett's royalties? Answer came there none. A clear theft of intellectual property, then—aggravated by the hypocrisy of a sanctimonious Christian publisher stealing from a defenceless old lady.

This echoes two interesting background motifs of the book: that lawlessness and anarchy hurt the poor and weak most of all, and that the greed of corrupt clerics is particularly odious.

Unlike the heroes of the book, however, Miss Lovett did not scale a sheer cliff and dispatch her enemies with skilful swordsmanship in order to win what was rightfully hers. She didn't mind about the royalties, she wrote. She was just pleased that thanks to Sonlight, more children were enjoying a book that she had believed long gone and quite forgotten.

After repeated prompting from your reviewer (and the provision of Miss Lovett's address), Sonlight Curriculum suddenly made an about-turn. Two weeks ago, it wrote, effusively, to Miss Lovett saying that 7,588 copies of her book had been sold, and that, should she be willing to give retrospective permission, a cheque for $4,530.04 was on its way. Like its plot, then, the book's own story has a happy ending; one to please adults as much as children.

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About sponsorship

New cinema

The cheek of the church

Aug 28th 2003
From The Economist print edition

AP

Catholic clergy were once portrayed as jolly heroes in films. Not any more

Get article background

CATHOLICISM has always provided great film fodder. Like the cowboy or gangster, nuns and priests long made for popular cinematic icons, bringing with them instant dramatic baggage of a moral and economic divide, notions of sin and sacrifice—and all that guilt.

In the early days, the clergy basked in cinematic sunlight as Hollywood idealised their missions. Who can forget Bing Crosby's Father O'Malley in the multi-Oscar winner, “Going My Way” (1944), miraculously getting the parish out of debt as he sang, golfed and pitched his way into the hearts of the local louts and—like a “Sister Act” prequel—transformed them into a top-notch choir? Or the missionary zeal of Roland Joffé's “The Mission” (1986)? But, oh, how times have changed.

Starting in the 1980s, Hollywood became intrigued with the lapsed priest as a central dramatic figure—and with questions of duty and cardinal sin. “True Confessions” (1981) showed Robert De Niro's corrupt priest embroiled in money laundering and collaborating with drug lords, while Jack Lemmon's Father Tim Farley in “Mass Appeal” (1984) was prompted by an idealistic young seminarian to re-examine his own spiritual values.

By the time Antonia Bird's “Priest” was released in 1994, transgression among the clergy had become cinematic dynamite, resonating with audiences and critics worldwide. Over the past decade, films about the Catholic church have become more anarchic in tone and intensity, highlighting institutional abuse and showing priests in explicitly sexual relationships, often graphically depicted on screen.

What is perhaps surprising is that the most explosive films of this kind have been made in deeply conservative Catholic countries. Carlos Carrera's “El Crimen del Padre Amaro”, like “Priest”, a melodrama about a young good-looking priest caught in a tug-of-war between ambitious idealism and carnality, was an artistic and commercial hit as soon as it was released in its homeland, Mexico, in 2002.

This month, “The Magdalene Sisters”, the Golden Lion winner at last year's Venice film festival, opened in America after already making its mark in Europe, especially in Ireland where it is set.

The film, which stars Nora-Jane Noone (pictured above) tells how 30,000 young women were punished through the 1960s, and some as late as 1996, by being made to work in Irish laundries. Peter Mullan, a 49-year-old Glasgow-born director who first made his name as an actor under Ken Loach and more

recently as a director with his 1997 funerary comedy, “Orphans”, has described the episode on which “The Magdalene Sisters” is based as “one of the great injustices of the 20th century: the collective incarceration of these women to work 364 days a year—bullied, physically and mentally abused—in God's sweatshops.”

Mr Mullan's film is a raw and angry attack on all punishments that are meted out to the innocent. The director claims his film “is not an attack on Catholicism—but rather a warning about the danger of the power of theocracy—be it rural Ireland in 1964 or the Taliban.” Yet his exposé points the finger squarely at the church that, he argues, could allow pastoral care to be turned into brutality and enslavement. The young women involved had been judged by the church to be a moral danger to themselves and the society they lived in. Their crimes? Signs of a flirtatious nature, being an orphan or a victim of rape who refused to keep quiet, bearing a child out of wedlock or simply being physically beautiful and, therefore, a source of temptation.

Conservative church groups in Ireland, and during the Venice film festival, in Italy, further fuelled controversy by protesting. Many thought they did protest too much. The recent exposure of widespread sexual abuse covered up with the help of the church authorities in Ireland and America have made Catholic audiences far less tolerant of what some Catholic clergy can do.

There is more in the pipeline. Several edgy films depicting the dark side of Catholicism are due out this year, including two Irish offerings: John Deery's “Conspiracy of Silence”, which was shown earlier this summer at film festivals in Taormina and Galway, and Aisling Walsh's “Song For a Raggy Boy”, which this month won the best-film award at the Copenhagen film festival. Both are likely to attract audiences, while angering the church.

And then there is Mel Gibson's “The Passion”, dubbed by some “The Gospel According to Braveheart”, which will cause a lot more sparks to fly. But that's not until next year.

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About sponsorship

Wilfred Thesiger

Aug 28th 2003
From The Economist print edition

Sir Wilfred Patrick Thesiger, an explorer, died on August 24th, aged 93

Ronald Codrai

OF ALL Saddam Hussein's depredations, the ruin of the marsh culture that once thrived around the Shatt al-Arab waterway, the Tigris and the Euphrates, is perhaps the most poignant. Today, the best way to revisit that civilisation is to read Sir Wilfred Thesiger's book, “The Marsh Arabs”. He spent much of the 1950s living among them, shooting wild boar, canoeing around the reedbeds and circumcising local boys. He captured their world in the sort of prose that earned him renown as a travel writer, as well, as he put it, as “the last explorer in the tradition of the past”:

> canoes moving in procession down a waterway, the setting sun seen crimson through the smoke of burning reedbeds, narrow waterways that wound still deeper into the marshes. A naked man in a canoe with a trident in his hand, reed houses built upon water, black, dripping buffaloes that looked as if they had been calved from the swamp...

Even such rhapsodies are surpassed by Sir Wilfred's ardour for the desert. It seduced him when, before the second world war, he was a colonial official and celebrated lion-hunter in Sudan. He returned to it when he fought with Britain's SAS behind enemy lines, once being chased by Rommel. (He also served with a cavalry unit in Syria, and harassed the Italians in east Africa.) After the war, he twice crossed the Rub al-Khali (“Empty Quarter”), the world's largest sand desert, which straddles Oman, Yemen and Saudi Arabia. He was not the first westerner that ever burst into those silent sands, but others had only skirted it. With his Bedouin companions, he braved thirst and raiding parties to see the fabled quicksands of Umm as Samim, exploits he chronicled in “Arabian Sands”.

Time-traveller

What enables a man to endure and even enjoy such dangers and mortifications? Courage and stamina, obviously, and compulsive curiosity, plus a relish for stern tests. It also helped to have a private income and favourable introductions. The beginning of Sir Wilfred's autobiography tells how “during my first year at Eton, Ras Tafari, later to be Emperor Haile Selassie ...paid a State Visit to England and invited my mother and me to call on him.” After Eton came Oxford, where he broke his monumental nose captaining the boxing team against Cambridge. But the source of his wanderlust lay in his early boyhood.

He was born in 1910 in an Abyssinian hut, eldest son of the British ambassador. In 1916, he watched the victory parade of Ras Tafari's warriors, fresh from hand-to-hand combat, which left “a life-long craving for barbaric splendour”. He returned to Abyssinia for his first exploratory triumph. In 1934, he located the end of the Awash river, a feat that involved facing down Danakil tribesmen, with their penchant for castration, and the xenophobic Sultan of Aussa. “The knowledge that...three previous expeditions had been exterminated,” he wrote, “I found wholly satisfying.”

Aged nine, he suffered two formative misfortunes. He was sent to an English boarding school, where the other boys scoffed at his tales of tiger shoots with his uncle, who was viceroy of India. Then his father died. After that, he hardly lived in England again until his final years, though when he visited he exchanged tribal dress for Etonian tweeds, rifle for umbrella. Instead, he spent his life seeking out primitive cultures, journeying back in time, and also, in a sense, back into his childhood.

Along with his homosexual leanings, the schoolboy loneliness helps to explain why his journeys come

across partly as quests for companionship. He explored people as much as places. The courtesy, loyalty and resilience of the Bedouin—qualities also prized by the English upper-classes—captivated him especially. These communions are the sub-plots of his books, evolving beneath the poetry of exotic place names. He traversed the Dasht-i-Lut desert of Iran, the Hindu Kush and the Atlas and Karakoram mountains. He took part in the Yemeni civil war in 1966-67, and lived for many years among the Samburu and Turkana people of Kenya. He immortalised these regions and his companions in the photographs that illustrate his writings, notable for their skilful composition and dramatic use of light.

But even his beloved Bedouin disappointed him by embracing modernity. Sir Wilfred was a prototype anti-globaliser, raging against the western erosion of African and Arabian identities and environments—though aware that his maps and hymnal accounts of his odysseys contributed to it. Such views are now common; but he went further, extolling the virtues of hardship and hunger, and bemoaning democracy and education. He loathed the oil industry that transformed the Arabian peninsula, and the cars and planes that were shrinking the world; he was snooty about so-called explorers who preferred them to camels. He took a romantic pride in being the last of the old school, a just-in-time witness to moribund ways of life.

He lived a life beyond the imaginings of screenwriters. In truth, the great age of exploring preceded him, but he accounted for much of what it left over. He received many honours, was knighted in 1995 and awarded the Star of Ethiopia (Third Class) by Haile Selassie. But, a relic of the past and fugitive from the present, he was convinced the world was going to the dogs.

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Overview

Aug 28th 2003
From The Economist print edition

The trickle of good news from **America's economy** continued. Consumer confidence rebounded in August. By the Conference Board's measure, it increased from 77.0 in July to 81.3 in August. The board's index of future expectations rose sharply, while its measure of current conditions fell, indicating that consumers are counting on quick economic improvement. The Conference Board's index of leading economic indicators chalked up its fourth straight monthly increase. Durable-goods orders rose by 1% in July.

America's **housing market** remains strong. In July, sales of existing homes soared to a record level, despite the rise in mortgage rates. Petrol prices in America are also surging. Driven by high crude oil prices, expanding demand and low inventories, the average price for a gallon of petrol jumped by 12 cents last week to $1.75.

According to EuroCOIN, an economic index published by Britain's Centre for Economic Policy Research, **euro-area economic growth** picked up pace slightly in July, its third straight month of increase.

Germany's IFO business climate index climbed in August, its fourth straight month of improvement. The increase foreshadows, according to some forecasters, a modest revival of German economic activity during the second half of 2003. Germany's consumer prices edged up by a higher-than-expected 1.2% in the year to August. Nominal wage growth accelerated to 1.8% in the year to June, compared with 3.0% in the 12 months to June 2002.

Retail sales in **Britain** rose by 4.4% in the year to July. That was slower than the 5.9% gain in the year to June.

Spain's producer-price inflation quickened to 1.1% in the year to July from 0.9% in the year to June.

Annual producer prices in **Switzerland** fell again, by 0.7% in July. But this was slower than the 1.6% decline seen a year earlier.

Sweden's industrial output rose by 2.4% in the year to June. Unemployment rose to 5% in July from 4.8% in June.

Belgium's economy shrank by 0.1% in the second quarter but grew by 0.8% in the year to the second quarter, matching analysts' expectations.

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About sponsorship

Output, demand and jobs

Aug 28th 2003
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2003	2004	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.9	Q1	+ 2.8	+ 2.8	+ 3.5	nil	Q1	+ 3.6	Q2	6.2	Jul	6.2
Austria	+ 1.0	Q1	+ 0.7	+ 0.5	+ 1.3	– 1.9	Dec	+ 7.4	Apr	4.4	Jul	4.3
Belgium	+ 0.8	Q2	– 0.4	+ 0.7	+ 1.6	– 5.9	Jun	+ 1.7	May	13.0	Jul†	11.8
Britain	+ 1.8	Q2	+ 1.3	+ 1.8	+ 2.4	+ 2.2	Jun	+ 4.4	Jul	5.0	Jul††	5.1
Canada	+ 2.6	Q1	+ 2.4	+ 2.2	+ 2.9	– 0.5	May	+ 3.2	May	7.8	Jul	7.6
Denmark	+ 1.2	Q1	+ 1.4	+ 1.1	+ 2.1	– 0.5	Jun	+ 2.2	Jun	6.0	Jul	5.1
France	nil	Q2	– 1.3	+ 0.8	+ 1.9	– 0.9	Jun	– 2.0	May	9.5	Jun	9.0
Germany	– 0.2	Q2	– 0.2	nil	+ 1.2	– 2.1	Jun	– 0.5	Jun	10.6	Jul§	9.8
Italy	+ 0.3	Q2	– 0.4	+ 0.5	+ 1.5	– 1.7	Jun	+ 1.2	May	8.7	Apr	9.0
Japan	+ 2.1	Q2	+ 2.3	+ 0.9	+ 0.9	+ 2.8	Jun	– 1.8	Jun	5.3	Jun	5.4
Netherlands	– 0.9	Q2	– 2.1	– 0.2	+ 1.2	– 3.2	Jun	– 1.1	Apr	5.4	Jul**	4.1
Spain	+ 2.1	Q1	+ 2.0	+ 1.9	+ 2.6	+ 4.5	Jun	+ 3.2	Jun	11.4	Jun	11.3
Sweden	+ 1.3	Q2	+ 1.2	+ 1.4	+ 2.2	+ 2.4	Jun	+ 7.0	Jun	5.0	Jul†	4.3
Switzerland	nil	Q1	– 1.0	– 0.1	+ 1.3	+ 0.9	Q1	+ 1.1	May	3.6	Jul†	2.4
United States	+ 2.3	Q2	+ 2.4	+ 2.3	+ 3.4	– 1.4	Jul	+ 5.2	Jun	6.2	Jul	5.8
Euro area	+ 0.4	Q2	nil	+ 0.6	+ 1.7	– 1.6	Jun	+ 0.4	May	8.9	Jun	8.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.2	Q1	– 4.9	na	na	– 3.8	Jun	+ 2.2	Jun	7.9	Jul†	7.8
Greece	+ 4.4	Q2	+ 0.4	na	na	+ 2.8	Jun	na		na		na
Iceland	+ 3.3	Q1	na	na	na	– 0.3	2002	na		3.0	Jul†	2.3
Ireland	+ 0.5	Q1	na	na	na	– 0.8	Jun	+ 2.9	Jun	4.8	Jul	4.4
Luxembourg	+ 1.1	2002	na	na	na	– 0.8	May	– 1.6	Mar	3.5	Jun	2.6
New Zealand	+ 3.6	Q1	+ 3.3	na	na	+ 4.2	Q1	+ 5.1	Q2	4.7	Q2	5.2
Norway	+ 0.6	Q1	+ 1.3	na	na	– 6.4	Jun	+ 5.4	Jun	4.7	Q2	4.0
Portugal	– 1.2	Q1	+ 0.3	na	na	– 2.2	Jun	– 2.2	Jun	6.2	Q2†	4.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ††Apr-Jun; claimant count rate 3.1% in July. §EU harmonised rate 9.4% in July. **May-Jul.

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Prices and wages

Aug 28th 2003
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2003	2004	latest		year ago	latest		year ago
Australia	+ 2.7	Q2	+ 2.8	+ 2.7	+ 2.3	+ 0.2	Q2	– 1.1	+ 5.5	Q2	+ 3.7
Austria	+ 1.1	Jul	+ 1.6	+ 1.2	+ 1.1	+ 1.2	Jul	– 1.0	+ 2.1	Jun	+ 2.4
Belgium	+ 1.5	Jul	+ 1.3	+ 1.3	+ 1.1	– 1.9	Jul	+ 0.5	+ 1.7	Q2	+ 2.6
Britain	+ 3.1	Jul	+ 1.5	+ 2.7	+ 2.4	+ 1.4	Jul	+ 0.3	+ 3.1	Jun	+ 3.9
Canada	+ 2.2	Jul	+ 2.1	+ 2.8	+ 1.9	– 2.7	Jun	– 1.1	+ 3.5	May	+ 2.8
Denmark	+ 1.9	Jul	+ 2.2	+ 2.2	+ 1.8	– 0.1	Jul	– 0.9	+ 3.9	Q1	+ 4.0
France	+ 1.9	Jul	+ 1.6	+ 1.8	+ 1.3	+ 0.9	Jun	– 1.4	+ 2.7	Q2	+ 3.9
Germany	+ 1.2	Aug	+ 1.2	+ 0.9	+ 0.5	+ 0.4	Jul	– 0.8	+ 1.8	Jun	+ 3.0
Italy	+ 2.7	Jul	+ 2.2	+ 2.4	+ 1.9	+ 1.3	Jul	+ 0.4	+ 1.7	Jun*	+ 2.3
Japan	– 0.4	Jun	– 0.7	– 0.4	– 0.4	– 0.7	Jul	– 2.1	+ 2.7	Jun	– 1.8
Netherlands	+ 2.2	Jun	+ 3.4	+ 2.3	+ 1.7	+ 2.5	Jun	– 2.2	+ 2.8	Jun	+ 3.4
Spain	+ 2.8	Jul	+ 3.4	+ 3.0	+ 2.5	+ 1.1	Jul	+ 0.4	+ 4.9	Q1	+ 4.0
Sweden	+ 1.8	Jul	+ 2.2	+ 2.2	+ 1.6	– 1.5	Jul	– 0.8	+ 2.1	May	+ 4.5
Switzerland	+ 0.3	Jul	nil	+ 0.7	+ 0.6	– 0.7	Jul	– 1.6	+ 1.8	2002	+ 2.5
United States	+ 2.1	Jul	+ 1.5	+ 2.1	+ 1.3	+ 3.0	Jul	– 1.2	+ 3.1	Jul	+ 2.9
Euro area	+ 1.9	Jul	+ 2.0	+ 1.8	+ 1.3	+ 1.4	Jun	– 0.9	+ 3.0	Q1	+ 3.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.4	Jul	+ 1.8	na	na	– 2.6	Jul	– 1.3	+ 4.3	Q2	+ 3.9
Greece	+ 3.6	Jul	+ 3.3	na	na	+ 3.1	Jun	+ 0.3	na		na
Iceland	+ 2.0	Aug	+ 3.2	na	na	+ 3.0	Sep	+ 6.2	+ 5.7	Jul	+ 6.6
Ireland	+ 3.1	Jul	+ 4.3	na	na	–10.6	Jun	– 1.9	+ 7.1	Q1	+ 6.9
Luxembourg	+ 1.6	Jul	+ 2.0	na	na	+ 2.1	Jun	– 1.3	– 2.8	May	+ 0.8
New Zealand	+ 1.5	Q2	+ 2.8	na	na	– 2.0	Q2	+ 1.5	+ 2.3	Q2	+ 2.1
Norway	+ 1.5	Jul	+ 1.6	na	na	+ 6.3	Jul	– 9.4	+ 5.3	Q1	+ 4.6
Portugal	+ 2.9	Jul	+ 3.4	na	na	– 0.4	Jul	+ 0.5	nil	Jun	+ 0.5

*New series.

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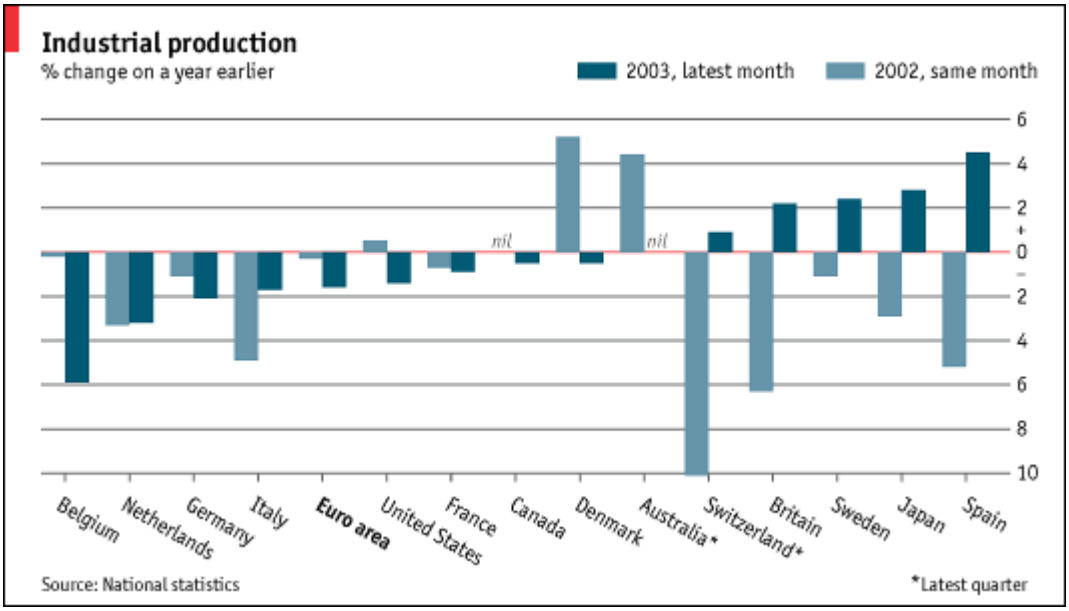
Industrial production

Aug 28th 2003
From The Economist print edition



The euro area is home to all five of the countries in our chart that have seen falling industrial production over the past two years. Spain is the euro area's star performer, however: industrial production rebounded with a 4.5% gain in the past year, after a 5.2% fall in the previous 12 months. Japan, Sweden, Britain and Switzerland have also recently seen impressive revivals in industrial output.

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Money and interest rates

Aug 28th 2003
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Aug 27th 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 8.7	+13.0	Jun	4.86	5.05	4.92	5.54	5.86	6.23
Britain	+ 8.1	+ 7.5	Jul	3.56	3.97	4.12	4.61	4.62	5.84
Canada	+ 9.3	+ 6.9	Jul	2.68	2.99	3.18	4.96	5.12	6.44
Denmark	+ 8.7	+ 9.8	Jul	2.30	3.60	2.94	4.35	4.80	5.56
Japan	+ 5.0	+ 1.8	Jul	0.01	0.02	0.17	1.37	1.21	1.49
Sweden	+ 3.3	+ 5.0	Jun	2.71	4.18	3.31	4.65	5.06	3.90
Switzerland	+23.7	+ 9.1	Jul	0.27	0.75	0.38	2.66	3.02	2.97
United States	+ 6.8	+ 8.5	Jul	1.04	1.72	1.97	4.46	4.19	6.12
Euro area†	+11.5	+ 8.5	Jul	2.15	3.37	2.58	4.16	4.52	4.19

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 5.31%, Japan No.252 1.39%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.002%, BOE repo 3.5%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Aug 28th 2003
From The Economist print edition

1995=100

	Aug 19th	Aug 26th*	% change on one month	% change on one year
Dollar index				
All items	78.4	79.8	+ 3.8	+ 9.0
Food	77.6	79.0	+ 4.2	+ 2.5
Industrials				
All	79.4	81.0	+ 3.4	+19.1
Nfa†	82.7	85.9	+ 7.5	+26.2
Metals	76.6	76.9	– 0.2	+17.4
Sterling index				
All items	78.0	80.2	+ 7.4	+ 6.2
Euro index				
All items	92.9	96.5	+ 9.8	– 1.8
Yen index				
All items	99.6	99.8	+ 2.0	+ 8.3
Gold				
$ per oz	360.80	362.45	+ 0.1	+16.6
West Texas Intermediate				
$ per barrel	30.75	31.91	+ 5.7	+10.7

* Provisional. † Non-food agriculturals.

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Stockmarkets

Aug 28th 2003
From The Economist print edition

Market indices

	Aug 27th	2003 high	2003 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	3,178.2	3,180.4	2,673.3	+ 0.3	- 7.6	+ 6.8	+21.4
Austria (ATX)	1,358.8	1,358.8	1,120.2	+ 0.7	-21.8	+18.1	+22.7
Belgium (Bel 20)	2,090.9	2,116.3	1,426.6	- 0.2	-43.2	+ 3.3	+ 7.2
Britain (FTSE 100)	4,206.4	4,272.1	3,287.0	- 0.3	-39.3	+ 6.8	+ 4.3
Canada (Toronto Composite)	7,500.6	7,516.5	6,228.6	+ 0.1	-34.1	+13.4	+27.6
Denmark (KBX)	207.0	207.6	145.0	- 0.3	-31.4	+24.5	+29.2
France (SBF 250)	2,223.5	2,253.1	1,630.1	+ 0.3	-49.4	+ 8.3	+12.4
(CAC 40)	3,280.0	3,329.0	2,403.0	- 0.0	-52.6	+ 7.1	+11.2
Germany (DAX)	3,483.1	3,565.5	2,203.0	- 0.5	-56.8	+20.4	+25.0
Italy (BCI)	1,179.5	1,195.9	959.4	- 0.8	-46.0	+ 8.0	+12.2
Japan (Nikkei 225)	10,309.0	10,362.7	7,607.9	+ 0.2	-73.5	+20.2	+21.1
(Topix)	1,000.7	1,009.6	770.6	- 0.0	-65.3	+18.7	+19.6
Netherlands (AEX)	331.0	337.3	218.4	+ 1.6	-52.8	+ 2.6	+ 6.5
Spain (Madrid SE)	751.7	758.3	576.8	- 0.2	-34.4	+18.6	+23.1
Sweden (Affarsvarlden Gen)	172.6	175.3	127.8	- 0.5	-56.9	+18.9	+22.1
Switzerland (Swiss Market)	5,180.0	5,250.7	3,675.4	+ 0.5	-38.4	+11.9	+ 9.6
United States (DJIA)	9,333.8	9,428.9	7,524.1	- 0.7	-20.4	+11.9	+11.9
(S&P 500)	996.8	1,011.7	800.7	- 0.4	-34.7	+13.3	+13.3
(NASDAQ Comp)	1,782.1	1,782.1	1,271.5	+ 1.2	-64.7	+33.4	+33.4
Europe (FTSE Eurotop 300)*	902.3	910.9	682.7	+ 0.3	-47.1	+ 5.3	+ 9.3
Euro area (FTSE Ebloc 100)*	774.1	783.8	565.7	+ 0.1	-50.1	+ 7.8	+11.9
World (MSCI)†	897.0	907.3	710.8	- 0.7	-38.1	na	+13.2
World bond market (Citigroup)‡	538.9	583.9	518.6	- 0.9	- 7.7	na	+ 2.6

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Aug 28th 2003
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2003	2004	Exchange rate trade-weighted† 1990=100 Aug 27th	year ago	Currency units per $ Aug 27th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2003‡
Australia	− 10.8	Jun	− 24.4	Q2	− 5.1	− 4.6	81.6	73.5	1.56	1.81	2.46	1.70	1.33	0.2
Austria	+ 0.7	May	+ 2.0	Jun	+ 0.2	+ 0.1	103.1§	100.8	0.92	1.02	1.44	–	0.78	-1.3
Belgium	+ 18.7	Jun	+ 10.7	Mar	+ 4.6	+ 4.6	103.3§	100.0	0.92	1.02	1.44	–	0.78	nil
Britain	− 75.7	Jun	− 5.8	Q1	− 1.1	− 1.3	99.4	105.0	0.64	0.65	–	0.69	0.54	-1.9
Canada	+ 35.9	Jun	+ 13.9	Q1	+ 1.8	+ 1.6	83.8	76.2	1.40	1.56	2.21	1.53	1.19	1.1
Denmark	+ 9.8	Jun	+ 5.9	Jun	+ 2.6	+ 2.5	106.0	103.0	6.82	7.57	10.7	7.43	5.79	1.6
France	+ 6.2	Jun	+ 23.2	Jun	+ 1.4	+ 1.3	106.8§	102.9	0.92	1.02	1.44	–	0.78	-3.6
Germany	+129.4	Jun	+ 54.4	Jun	+ 2.1	+ 1.9	104.5§	99.8	0.92	1.02	1.44	–	0.78	-3.7
Italy	+ 3.6	May	− 16.6	Jun	− 0.5	− 0.4	76.1§	73.3	0.92	1.02	1.44	–	0.78	-2.4
Japan	+ 94.6	Jun	+112.6	Jun	+ 2.5	+ 2.7	131.9	136.9	118	118	185	128	–	-7.7
Netherlands	+ 30.1	Jun	+ 2.9	Q1	+ 2.2	+ 2.4	102.8§	99.0	0.92	1.02	1.44	–	0.78	-1.6
Spain	− 45.5	May	− 19.6	May	− 2.4	− 2.3	77.3§	75.0	0.92	1.02	1.44	–	0.78	-0.4
Sweden	+ 16.3	Jul	+ 11.1	Q2	+ 3.5	+ 3.4	79.2	77.5	8.49	9.31	13.3	9.25	7.20	0.7
Switzerland	+ 5.8	Jul	+ 32.8	Q1	+10.8	+10.6	111.5	113.7	1.41	1.50	2.22	1.54	1.20	na
United States	−529.6	Jun	−510.2	Q1	− 5.3	− 5.4	105.9	113.1	–	–	1.57	1.09	0.85	-4.6
Euro area	+ 80.4	Jun	+ 42.9	Jun	+ 0.6	+ 0.5	88.1	81.7	0.92	1.02	1.44	–	0.78	-2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.8	Jun	+ 10.3	Jun	na	na	82.2§	78.9	0.88	1.02	1.38	–	0.75	3.1
Greece	− 24.0	Jun	− 11.5	Jun	na	na	59.7§	58.0	0.88	1.02	1.38	–	0.75	-1.0
Iceland	nil	Jun	nil	Q1	na	na	98.1**	89.0	80.5	87.0	127	87.7	68.3	nil
Ireland	+ 37.4	Jun	− 2.1	Q1	na	na	95.2§	89.3	0.88	1.02	1.38	–	0.75	-0.8
Luxembourg	− 3.4	Jun	+ 1.8	Q1	na	na	103.3§	100.0	0.88	1.02	1.38	–	0.75	0.2
New Zealand	− 1.6	Jul	− 1.4	Q1	na	na	98.6	85.3	1.75	2.13	2.75	1.91	1.49	0.8
Norway	+ 27.4	Jul	+ 25.8	May	na	na	95.7	105.2	7.66	7.52	12.0	8.35	6.50	11.3
Portugal	− 12.6	May	− 8.5	May	na	na	92.9**	90.0	0.88	1.02	1.38	–	0.75	-3.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, June average. ‡OECD forecast. **IMF, April average.

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Stockmarkets

Aug 28th 2003
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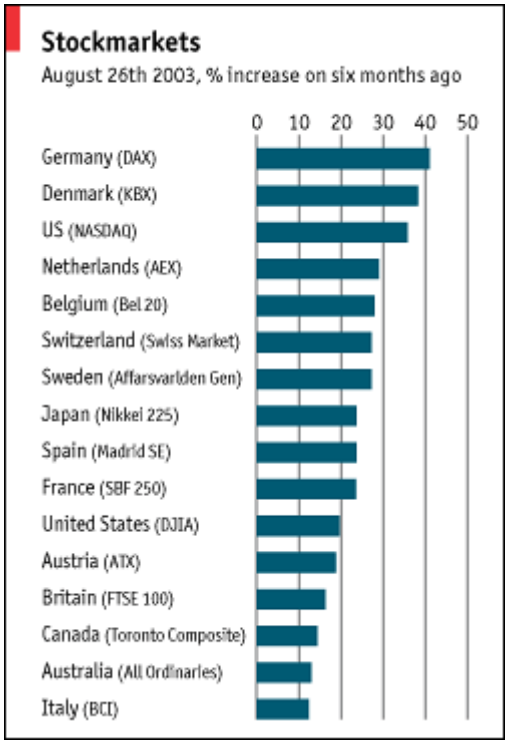

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Overview

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Malaysia's GDP growth slowed from 4.6% in the year to the first quarter to 4.4% in the year to the second quarter. **South Korea's** economic growth also slowed, from 3.7% to 1.9% over the same period. **Indonesia's** economy bucked the trend, however, by quickening its pace: from 3.5% growth in the year to the first quarter, to 3.8% in the year to the second quarter.

Chile's GDP continued to grow strongly relative to that of its neighbours in Latin America. It grew by 2.7% in the year to the second quarter.

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Global Terrorism Index

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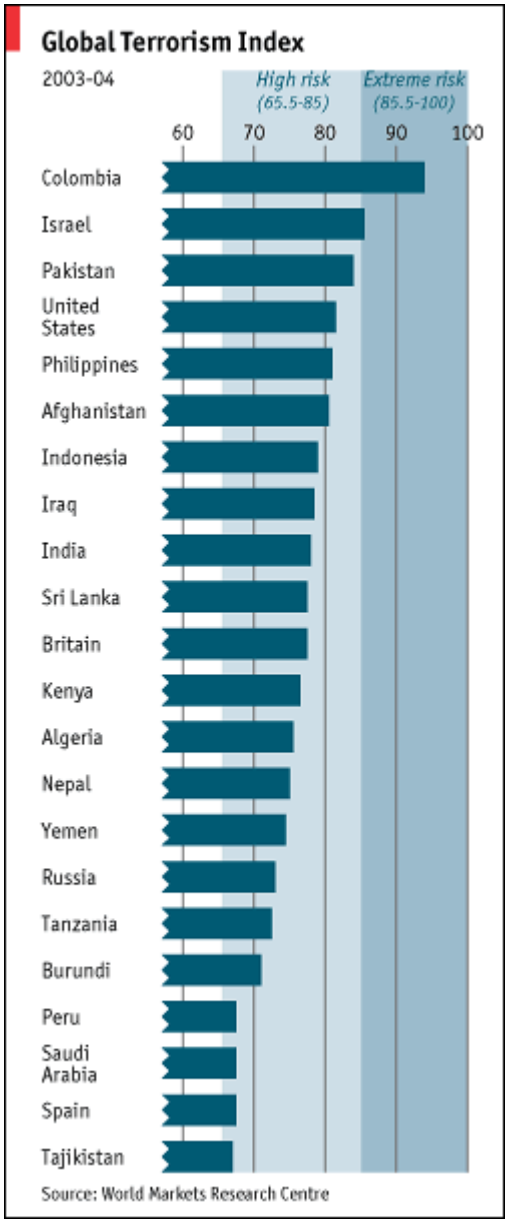
Colombia faces a higher risk of terrorism than any other country in 2003-04, according to an index compiled by the World Markets Research Centre, a provider of country intelligence. Along with Israel, Colombia is given an “extreme” risk rating. America is rated fourth riskiest, while Britain ties for tenth place. According to the index, North Korea is reckoned to be the least likely place for a terrorist attack.



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Economy

Aug 28th 2003
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 6.7	Q2	+16.5	Jul	+ 0.5	Jul	+20.8	Jul	+35.4	2002	356.5	Jul
Hong Kong	+ 4.5	Q1	– 8.8	Q1	– 4.0	Jul	– 6.7	Jul	+18.4	Q1	112.6	Jul
India	+ 4.9	Q1	+ 5.7	Jun	+ 4.4	Jun	–11.9	Jun	+ 4.7	Q1	81.2	Jul
Indonesia	+ 3.8	Q2	+18.4	Mar	+ 5.8	Jul	+25.5	Jun	+ 6.7	Q1	33.0	Jun
Malaysia	+ 4.4	Q2	+ 8.6	Jun	+ 1.0	Jul	+17.0	Jun	+ 8.5	Q1	36.0	Jun
Philippines	+ 3.2	Q2	– 1.2	Jun	+ 3.3	Jul	– 0.7	Jun	+ 2.7	May	13.0	Jul
Singapore	– 4.2	Q2	– 6.3	Jul	+ 0.3	Jul	+13.7	Jul	+23.8	Q2	87.0	Jul
South Korea	+ 1.9	Q2	+ 0.7	Jul	+ 3.2	Jul	+ 9.1	Jul	+ 3.7	Jun	132.8	Jul
Taiwan	– 0.1	Q2	+ 7.5	Jul	– 1.0	Jul	+17.2	Jul	+26.9	Q2	182.2	Jul
Thailand	+ 6.7	Q1	+11.2	Jun	+ 1.8	Jul	+ 4.7	Jun	+ 8.7	Jun	36.7	Jul
Argentina	+ 5.1	Q1	+11.9	Jul	+ 7.3	Jul	+17.1	Jun	+10.1	Q1	13.5	Jul
Brazil	+ 2.0	Q1	– 2.1	Jun	+15.4	Jul	+21.8	Jul	+ 2.6	Jul	47.3	Jul
Chile	+ 2.7	Q2	– 2.9	Jul	+ 3.1	Jul	+ 2.5	Jul	– 0.8	Q2	15.4	Jul
Colombia	+ 3.8	Q1	+ 1.0	Jun	+ 7.0	Jul	– 0.3	May	– 2.1	Q1	10.0	Jul
Mexico	+ 0.2	Q2	– 1.7	Jun	+ 4.1	Jul	– 6.5	Jul	–12.7	Q1	51.7	Jul
Peru	+ 5.7	Jun	+ 3.3	Jun	+ 2.0	Jul	+ 0.4	Jun	– 1.2	Q2	9.3	Jul
Venezuela	–29.0	Q1	–14.6	Apr	+31.9	Jul	+15.0	Q1	+ 9.5	Q1	11.9	May
Egypt	+ 3.1	2002†	+ 4.2	2002†	+ 3.9	May	– 7.1	Mar	+ 1.0	Q1	13.4	Jun
Israel	– 0.3	Q2	– 0.8	Jun	– 1.6	Jul	– 6.3	Jul	– 0.5	Q1	24.4	Jul
South Africa	+ 1.8	Q2	– 2.2	Jun	+ 5.2	Jul	+ 3.2	Jun	– 0.2	Q1	6.5	Jun
Turkey	+ 8.1	Q1	+11.7	Jun	+27.4	July	–18.1	Jun	– 4.1	Jun	28.6	Jun
Czech Republic	+ 2.2	Q1	+ 6.2	Jun	– 0.1	Jul	– 2.3	Jul	– 4.4	Q1	25.2	Jul
Hungary	+ 2.7	Q1	+ 2.8	Jun	+ 4.7	Jul	– 3.3	Jun	– 3.8	Jun	12.2	Jul
Poland	+ 2.2	Q1	+10.3	Jul	+ 0.8	Jul	–10.1	Jun	– 5.2	Jun	30.9	Jul
Russia	+ 6.8	Q1	+ 7.1	Jul	+14.0	Jul	+54.2	Jun	+36.4	Q2	63.9	Jul
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.6	2002†	+15.8	Nov	+ 1.4	Jul	– 1.2	Jul	+ 2.8	2002†	9.8	May
Saudi Arabia	+ 0.7	2002§	na		– 1.0	May	+38.6	2002§	+11.7	2002	22.8	May

*Excluding gold, except Singapore; IMF definition. †Year ending June. §Economist Intelligence Unit estimate.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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Financial markets

Aug 28th 2003
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Aug 27th		Dec 31st 2002	
	Aug 27th	year ago	Aug 27th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	13.0	na	1,494.1	-1.2	+ 5.3	+ 5.3
Hong Kong	7.80	7.80	12.3	1.15	10,678.6	+1.9	+ 14.6	+ 14.6
India	45.9	48.0	72.1	4.98	4,205.6	+3.7	+ 24.5	+ 30.2
Indonesia	8,470	8,950	13,317	9.42	530.9	+2.3	+ 24.9	+ 32.0
Malaysia	3.80	3.80	5.97	3.10	744.6	+1.7	+ 15.2	+ 15.2
Philippines	55.3	53.4	87.0	7.75	1,242.9	+0.0	+ 22.0	+ 17.8
Singapore	1.75	1.73	2.75	0.88	1,594.5	-1.1	+ 18.9	+ 17.7
South Korea	1,178	1,186	1,852	3.85	759.0	+3.0	+ 20.9	+ 21.8
Taiwan	34.1	34.8	53.6	1.10	5,553.4	+0.2	+ 24.7	+ 27.2
Thailand	41.2	43.1	64.8	1.28	525.8	+0.9	+ 47.5	+ 54.2
Argentina	2.95	3.37	4.63	7.81	713.0	+5.7	+ 35.8	+ 55.1
Brazil	2.98	3.54	4.68	21.84	15,142.6	+4.6	+ 34.4	+ 59.7
Chile	699	720	1,100	2.88	6,675.6	-1.4	+ 33.0	+ 37.0
Colombia	2,855	2,867	4,488	7.87	2,087.0	-1.5	+ 29.7	+ 30.3
Mexico	10.94	10.46	17.2	4.65	7,502.1	+0.6	+ 22.4	+ 17.2
Peru	3.48	3.52	5.47	2.88	1,881.0	+0.0	+ 35.1	+ 36.5
Venezuela	1,598	1,387	2,512	16.75	14,329.5	-1.7	+ 78.8	+ 55.1
Egypt	6.18	4.63	9.71	9.42	8,928.8	+3.5	+ 66.2	+ 24.6
Israel	4.46	4.75	7.01	3.85	412.4	+0.6	+ 24.0	+ 32.1
South Africa	7.3	8.6	11.5	10.60	9,141.5	-0.2	- 1.5	+ 15.1
Turkey	1,401,000	1,660,000	2,202,652	31.00	11,623.4	+0.6	+ 12.1	+ 32.8
Czech Republic	29.9	30.1	47.0	2.06	614.0	+4.3	+ 33.3	+ 34.2
Hungary	236	225	371	9.55	8,823.3	+2.2	+ 13.1	+ 7.8
Poland	3.99	3.83	6.28	5.10	20,973.8	+7.3	+ 46.0	+ 40.2
Russia	30.4	32.0	47.9	16.00	516.7‡	-0.0	+ 37.1	+ 43.9
EMF (MSCI)*	1.00	1.00	1.57	na	371.1	+1.3	na	+ 27.0
EMBI+†	1.00	1.00	1.57	na	270.4	+0.8	na	+ 18.1

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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